Pillar III Disclosures as at 30th September 2019

2019

[Ujjivan Small Finance Bank (hereinafter called "the Bank") has prepared this disclosure document in compliance with the directions of Reserve Bank of India (hereinafter referred to as "the Regulator" or "RBI") vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. The document provides a review of key observations pertaining to the Bank's capital adequacy, credit quality, key business highlights and a review of its key risks as at 30th September 2019.]

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1. List of abbreviations

Abbreviation	Full form
ADF	Automated Data Flow
AFI	Annual Financial Inspection
AFS	Available For Sale
ALCO	Asset Liability Committee
ANBC	Adjusted Net Bank Credit
ATM	Automated Teller Machine
BC	Business Correspondent
BCMP	Business Continuity Management Policy
BIA	Basic Indicator Approach
CA	Current Account
CAC	Credit Approval Committee
CAB	College of Agriculture Banking
CASA	Current Account Saving Account
CBO	Chief Business Officer
CBS	Core Banking Solution
CET1	Common Equity Tier 1 Capital
CFO	Chief Financial Officer
CGTMSE	Credit Guarantee Fund Trust For Micro And Small Enterprises
CIC	Core Investment Company
CRAR	Capital to Risk-weighted Assets Ratio
CRMC	Credit Risk Management Committee
CRO	Chief Risk Officer
CRR	Cumulative Repayment Rate
CRR	Cash Reserve Ratio
CS	Company Secretary
DPD	Days Past Due
DSCB	Domestic Scheduled Commercial Bank
EAD	Exposure at Default
ECL	Expected Credit Loss
ECRA	External Credit Rating Agency
EDP	Enterprise Data Platform
ELC	Entity Level Controls
ESOP	Employee Stock Option Scheme
EWS	Early Warning System
FALLCR	Facility to Avail Liquidity for LCR
FIG	Financial Institutions Group
FIRB	Foundation Internal Rating Based Approach
GLC	General Ledger Code

GNPA	Gross Non Performing Asset
GPTW	Great Place to Work
GST	Goods and Service Tax
HQLA	High Quality Liquid Assets
IBA	Indian Banks' Association
IBPC	Inter Bank Participation Certification
ICAAP	Internal Capital Adequacy and Assessment Process
IIBF	Indian Institute of Banking and Finance
IFC	International Finance Corporation
IGAAP	Indian Generally Accepted Accounting Principles
IMF	International Monetary Fund
Ind-AS	Indian Accounting Standards
IRAC	Income Recognition and Asset Classification
IRRBB	Interest Rate Risk in Banking Book
KRA	Key Responsibility Area
KRI	Key Risk Indicator
KYC	Know Your Customer
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LMS	Loan Management System
LR	Leverage Ratio
LWE	Left Wing Extremism
MCA	Ministry of Corporate Affairs
MD	Modified Duration
MD & CEO	Managing Director and Chief Executive Officer
MDG	Modified Duration Gap
MSE	Micro and Small Enterprises
NBFC-ND-SI-CIC	Non-Banking Financial Company-Non Deposit-taking-Systemically Important- Core Investment Company
NE	North Eastern
NIBM	National Institute of Bank Management
NI Act	Negotiable Instruments Act
NNPA	Net Non-Performing Asset
NPI	Non Performing Investment
NPV	Net Present Value
NRI	Non Resident India
NSFR	Net Stable Funding Ratio
NTB	New to Bank
NURC	Non Unbanked Rural Centre
ORMC	Operational Risk Management Committee
OSP	Outstanding Principal
OTRR	On Time Repayment Rate
OTS	One Time Settlement

PAC	Product Approval Committee
PAR	Portfolio at Risk
PAT	Profit After Tax
PB	Payment Bank
PD	Probability of Default
PMAY	Prime Minister Awas Yojana
PNCPS	Perpetual Non-Cumulative Preference Shares
PONV	Point of Non Viability
PSL	Priority Sector Lending
PTP	Promise to Pay
QC	Quality Check
RBI	Reserve Bank of India
RCA	Root Cause Analysis
RCSA	Risk and Control Self-Assessment
ROA	Return on Asset
RPA	Robotic Process Automation
RSA	Risk Sensitive Assets
RSL	Risk Sensitive Liabilities
RWA	Risk Weighted Assets
SA	Standardized Approach
SDA	Standardized Duration Approach
SFB	Small Finance Bank
SLBC	State Level Bankers' Committee
SLR	Statutory Liquidity Ratio
SLS	Structural Liquidity Statement
SMA	Special Mention Accounts
SPV	Special Purpose Vehicle
TAT	Turnaround Time
UAT	User Acceptance Testing
UFSL	Ujjivan Financial Services Limited
UPI	Unified Payment Interface
URC	Unbanked Rural Centre
VaR	Value at Risk
YTD	Year Till Date

2. Introduction

Ujjivan Small Finance Bank (hereinafter called "the Bank") has prepared this disclosure document in compliance with the directions of Reserve Bank of India (hereinafter referred to as "the Regulator" or "RBI") vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. The document provides a review of key observations pertaining to the Bank's capital adequacy, credit quality, key business highlights and a review of its key risks as at 30th September 2019.

3. About the Bank

3.1. Change in Leadership

The Bank is currently in the process of a change in leadership at the top with Mr. Nitin Chugh, slated to take charge as Managing Director and Chief Executive Officer (MD & CEO) with effect from 1st December 2019. He has joined the Bank in the capacity as 'President' in August 2019 and is working closely with Mr. Samit Ghosh, incumbent MD & CEO, who is retiring on completion of his term, to ensure a smooth transitioning. He brings in extensive experience in Retail and Digital Banking from a highly acclaimed bank. The synergy between his experience and the Bank's digital roadmap makes him the right choice to take the Bank to its goal of becoming a leading mass market bank.

3.2. Branch network and distribution reach

The Bank commenced operations on 1st February, 2017 and as at 30th September, 2019 had completed 2 and half years of business operations. The Bank ended Q2 of FY 2019-20 on a positive note. The branch position as at 30th September 2019 was as follows:

Particulars	Position as on 30th September 2019
Total Banking outlets, of which	552
Banking outlets[1] (Non URC[2])	411
Banking outlets (URC)	101
Qualifying URC Branches (Branches situated in tier 3-6 locations in NE[3] states and LWE[4] districts)	33

[1] A 'Banking Outlet' for a Domestic Scheduled Commercial Bank (DSCB), a Small Finance Bank (SFB) and a Payment Bank (PB) is a fixed point service delivery unit, manned by either bank's staff or its Business Correspondent where services of acceptance of deposits, encashment of cheques/cash withdrawal or lending of money are provided for a minimum of 4 hours per day for at least five days a week. It carries uniform signage with name of the bank and authorisation from it, contact details of the controlling authorities and complaint escalation mechanism. The bank should have a regular off-site and on-site monitoring of the 'Banking Outlet' to ensure proper supervision, 'uninterrupted service' except temporary interruptions due to telecom connectivity, etc. and timely addressing of customer grievances. The working hours/days need to be displayed prominently.

[2] Unbanked Rural Centre (URC)

[3] North eastern states

[4] Districts with active Left Wing Extremism (LWE)

Business Correspondents (BC)	7

The Bank is fully compliant with the RBI guidelines on having 25% (25.54% as at 30th September 2019) of its Banking Outlets in the URCs.

The Bank has not expanded beyond the seven BCs which it had enrolled in January 2018 to comply with the regulatory requirement of opening branches in URCs. For its URC requirement now, the Bank's strategy is to focus on brick and mortar branches providing a wide array of banking services. The BCs enrolled are compliant with the requirements laid out by RBI. These BCs perform essential banking services such as acceptance/withdrawal of small value deposits, balance enquiry, mini statement of accounts and undertake activities pertaining to updating Know Your Customer (KYC) requirements. Personnel managing each BC are duly certified by the Indian Institute of Banking and Finance (IIBF) as required by RBI. The Bank evaluates the performance of BCs at regular intervals.

The Bank operated a network of 442 Automated Teller Machines (ATMs) and 18 Automated Cash Recyclers as at 30th September 2019.

3.3. New products and initiatives

The Bank provides retail banking services (which include para- banking activities, selling life insurance and general insurance products of third party service providers, with an approval from RBI) to economically active poor in urban and semi urban areas. During the quarter, the Bank has further expanded its product bouquet with the launch of digital savings and deposit accounts, financing of three-wheelers and piloted a privilege savings accounts product for the middle income group.

3.4. Progress in IT and Digital banking

On the technology front, the Bank rolled out the facility for opening digital savings and deposit accounts on a pilot basis, launched on-tap mobile banking activation upon account opening and introduced instant debit card activation facility for it depositors. A pilot of digital self-service account opening was carried out wherein the customers could open their own accounts using internet, mobile, E-KYC, E-sign and Pan Card. The results of the pilot project are currently being analysed. For enrolling the subscribers into the Atal Pension Yojana, a module has now been developed in the Core Banking System. The Bank has also made necessary changes to comply with the RBI directions on waiver of NEFT/RTGS charges, and resetting of external benchmark lending rates at an interval of 90 days. The Bank has implemented API 2.5 – AePS certification of virtual ID and UID during the month. UPI 2.0 was also launched in the month of September. This feature enables the customer to pre-authorise (mandate) a transaction, for debit from the Bank's account at a later date.

During the quarter, the Bank has surpassed many established banks in transactions undertaken through debit cards at ATMs. The Bank was ranked first in terms of debit card transaction at ATMs among all small finance banks and payments banks. The Bank also ranks 34 among 64 banks in terms of debit card transaction at ATMs.

4. Key performance highlights of the Bank:

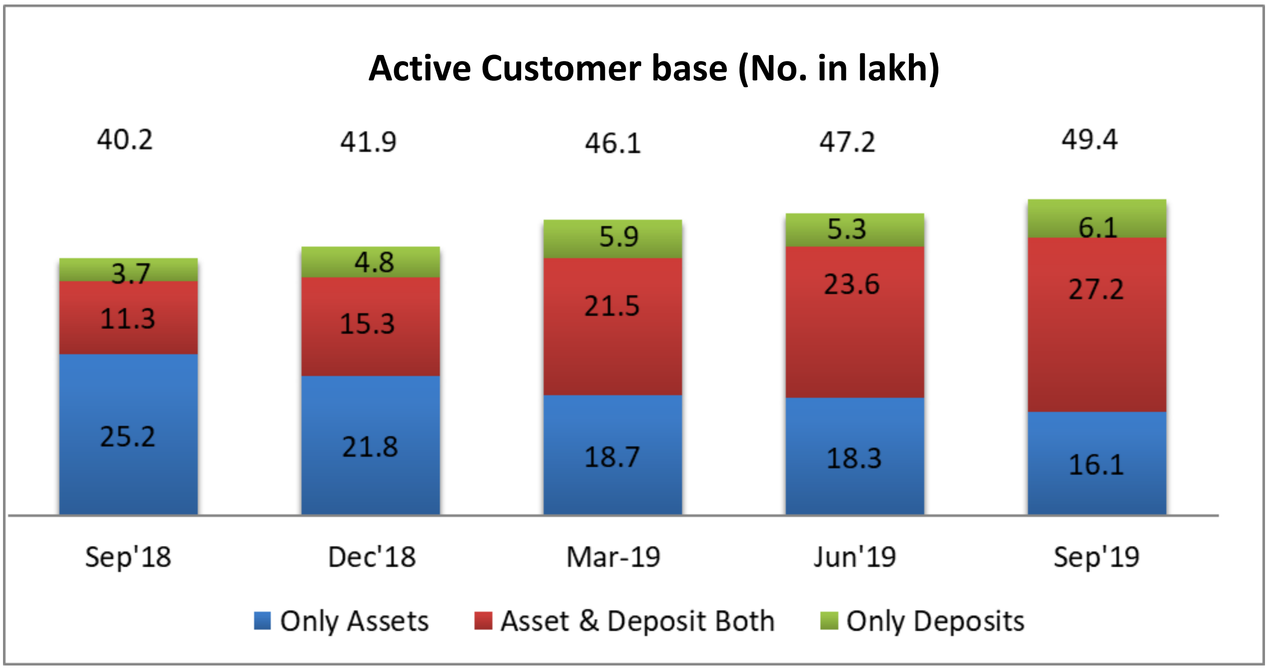
Some of the key achievements made in HY 2019-20 were as follows:

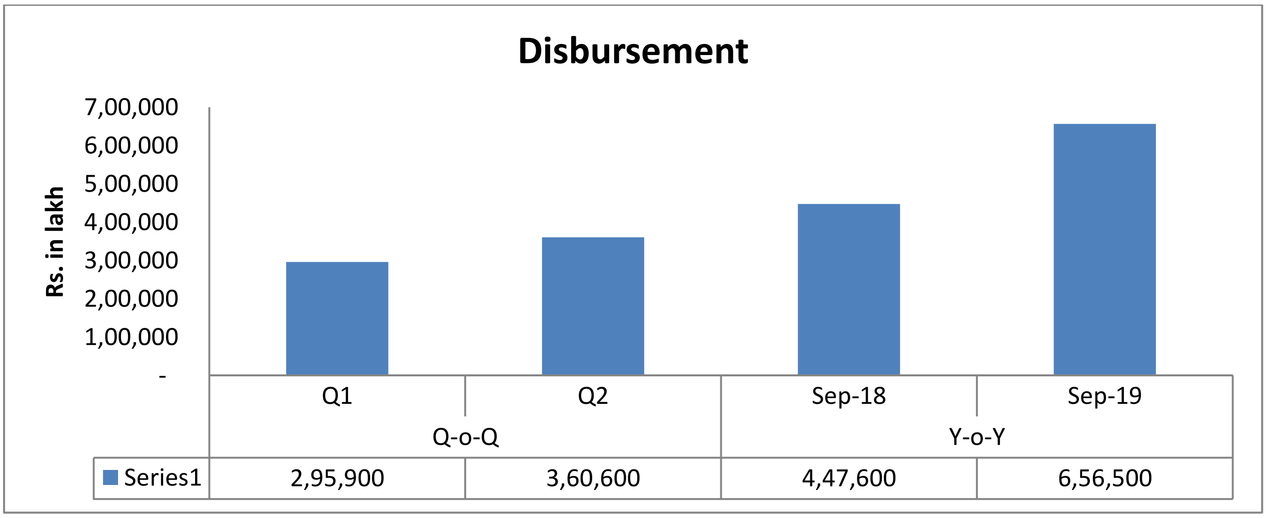
Key Highlights	Description
Customer base	• Total outreach: >49.40 lakh unique customers (47.20 lakh unique customers in June 2019)
Loan Portfolio	• Gross Advances at Rs. 12,84,728 lakh (11,39,416 lakh in June 2019) • Non-Microfinance book at 21% (18% in June 2019)
Deposit Balance	• Total Deposits (Retail plus Institutional): Rs. 10,12,985 lakh (Rs. 7,95,630 lakh June 2019) • CASA: 12% (10.40% in June 2019) • Retail: 42% (43% in June 2019)
Portfolio Quality	• Gross Non-Performing Assets (GNPA): 0.85% (0.84% June 2019) • Net Non-Performing Assets (NNPA): 0.33% (0.26% June 2019) • Write offs during Q2: Rs. 1,685 lakh (Rs. 1,570 lakh during Q1). Total cumulative write off for HY 2019-20 : Rs. 3,255 lakh
Employee strength	• 16,776 (15,626 as at June 2019)
Profitability	• Profit after Tax: Rs. 9,263 lakh (Rs. 9,448 lakh for QE June 2019). Cumulative PAT for HY 2019-20: Rs. 18,711 lakh) • Return on Assets (ROA): 2.50% (2.71% in June 2019)
Funding	• Cost of funds: 8.30% (8.50% in June 2019)

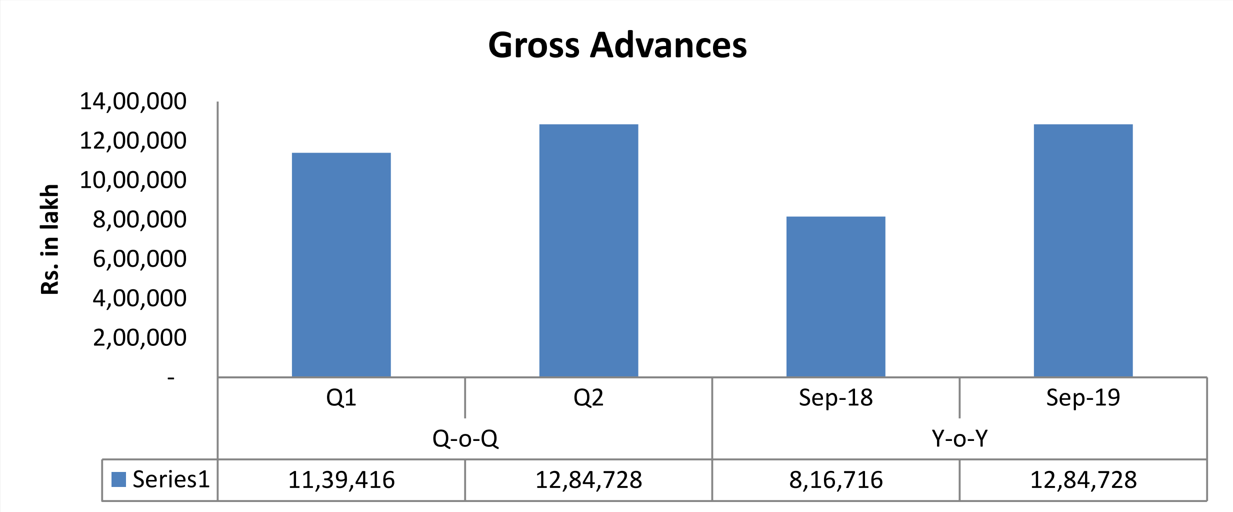
The performance ratios of the Bank as at 30th September 2019 are as follows:

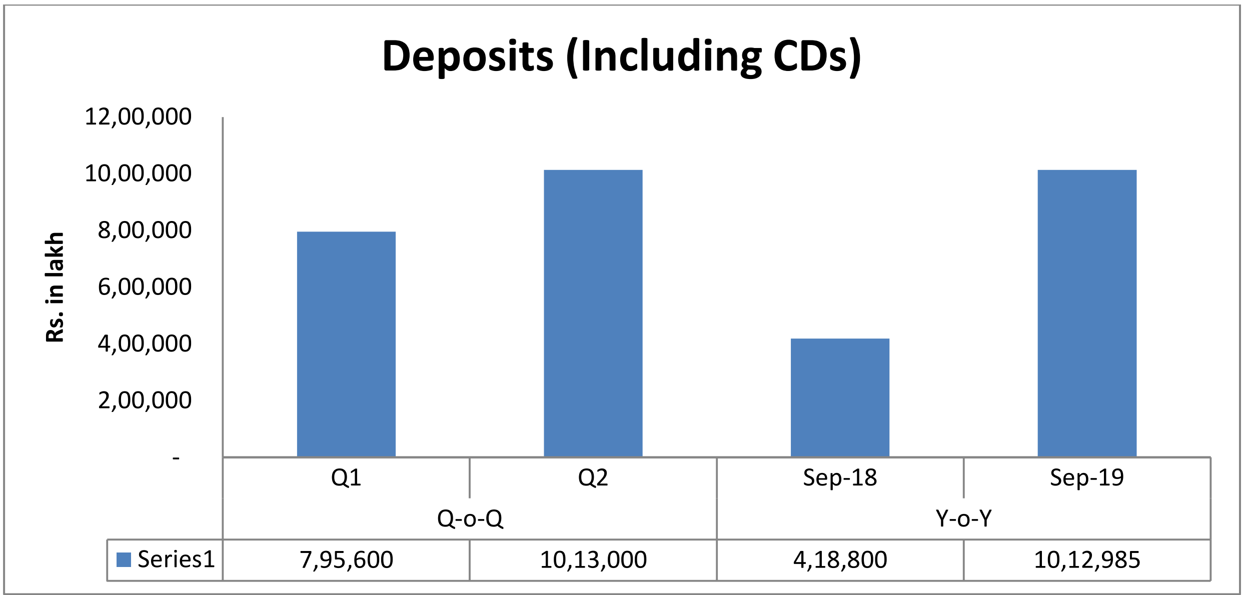
Particulars	**As at March 31, 2019**	**As at June 30, 2019**	**As at 30, September 2019**
Interest income as a percentage to working funds	17.28%	17.37%	17.25%
Non-interest income as a percentage to working funds	1.94%	2.87%	2.39%
Operating profit as a percentage to working funds	2.93%	4.63%	4.14%
Return on assets	1.88%	2.71%	2.56%

Business (deposits plus gross advances) per employee (Rs. in lakh)	113.44	107.12	122.66









5. Table DF- 1: Scope of Application

5.1 Qualitative Disclosures

Parent Organization/Holding Company: Ujjivan Financial Services Limited (UFSL)

The disclosures in this document pertain to the Bank as a stand-alone and independent entity. The Bank does not have any subsidiary - the operating guidelines do not permit Small Finance Banks (SFBs) to have subsidiaries, nor does the Bank have any interest in any insurance entity.

5.1.1 List of group entities considered for consolidation

Name of the entity / country of incorporation	Principal activity of the entity	Total balance sheet equity	Total balance sheet assets
NIL	NIL	NIL	NIL

5.1.2 Aggregate amount of capital deficiencies in all subsidiaries which are not included in the regulatory scope of consolidation

Name of the subsidiaries/ country of incorporation	Principal activity of the entity	Total balance sheet equity	% of the Bank's holding in the total equity	Capital deficiencies
NIL	NIL	NIL	NIL	NIL

5.1.3 Aggregate amounts (e.g. current book value) of the Bank's total interests in insurance entities, which are risk-weighted

Name of the insurance entities/ country of incorporation	Principal activity of the entity	Total balance sheet equity	% of the Bank's holding in the total equity / proportion of voting power	Quantitative impact of regulatory capital using risk weighting methods versus using the full deduction method
Nil	Nil	Nil	Nil	Nil

6. Table DF-2- Capital Structure

6.1 Qualitative Disclosures

6.1.1 Equity capital

The Bank has an authorized capital of Rs.1, 50,000 lakh in the form of Common Equity qualifying as Tier 1 capital under the guidelines of RBI. The Bank has issued, subscribed and paid up equity capital of Rs.1, 44,003 lakh, having 1,44,00,36,800 shares of face value Rs.10 each.

The licensing guidelines for SFBs permit the aggregate foreign investment in a private sector bank from all sources up to a maximum of 74% of the paid-up capital (automatic up to 49% and approval route beyond 49% to 74%). By limiting foreign shareholding in the Holding Company to 40.23% (including NRI holdings) as at 30th September 2019, the Bank was compliant with RBI guidelines on SFBs. Further, in compliance with the licensing guidelines, UFSL, the Holding Company, is registered as an NBFC-Non-Deposit-taking Systemically Important - Core Investment Company – (NBFC-ND-SI-CIC) with RBI and is the non-operating holding company. The shares of the Holding Company are listed and are actively traded with a closing market price of Rs 314.70 as at 30th September 2019.

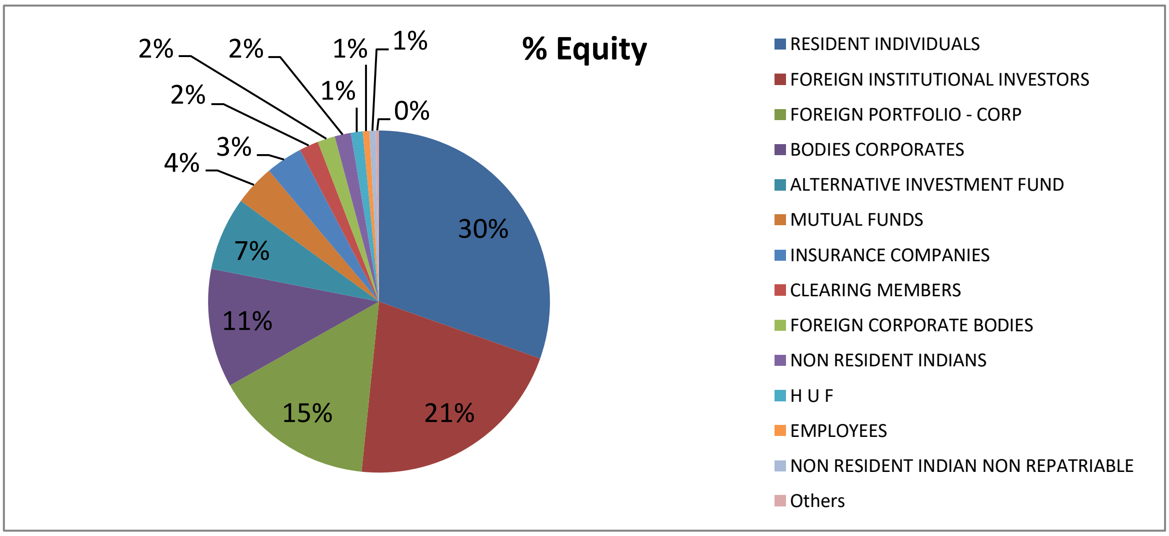
6.1.1.1. Update on listing of the Bank

The licensing guidelines require the Bank to list its shares within three years of reaching a net worth of Rs 50,000 lakhs. While the net worth of the Bank since its inception is in excess of this mandated figure, the Bank has completed its second full year of operation. The Bank has received the requisite approvals for its IPO from the regulatory authorities and is at an advanced stage for the launch to fully comply with the licensing conditions.

6.1.1.2. Promoter contribution[5]:

The Bank is a fully owned subsidiary of UFSL. As per RBI guidelines, if the initial shareholding by promoter in the Bank is in excess of 40%, it should be brought down to 40% within a period of five years. Additionally, the promoter's minimum contribution of 40% of paid-up equity capital shall be locked in for a period of five years from the date of commencement of business of the bank. Further, the promoter's stake should be brought down to 30% of the paid-up equity capital of the bank within a period of ten years, and to 26% within twelve years from the date of commencement of business of the bank.

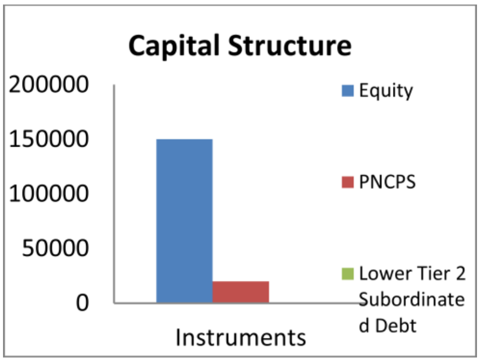
The Bank takes cognizance of the same and compliance to the above guidelines will be undertaken as per the timelines prescribed.



[6]

The Capital Structure of the Bank is provided below:

Capital Structure- Summary of Tier I & Tier II Capital			
S. No.	**Instrument**	**Whether Tier I or II**	**Amount (Rs. in Lakhs)**
1	Equity[7]	Tier 1	1,50,000
2	PNCPS[8]	Tier 1	20,000
3	Lower Tier II Subordinated Debt	Tier 2	-NIL-[9]



[5] Refer RBI on Guidelines for Licensing of "Small Finance Banks" in the Private Sector dated November 27, 2014.

[6] 'Others' include Banks, QIBs, Directors, Trusts, NBFCs and other foreign nationals

[7] Authorized capital

[8] Perpetual Non-cumulative Preference Shares

[9] The erstwhile subordinated debt instrument of Rs. 5,000 lakhs has been reclassified as Borrowings post RBI AFI audit. The RBI observed that the instrument in question had restrictive clauses w.r.t deployment of funds. This was not in alignment to the NCAF guidelines on Lower Tier II instruments.

6.1.2 Details of PNCPS instruments

Perpetual Non-cumulative preference shares (PNCPS) can be issued by Indian banks, subject to the legal provisions, in Indian rupees and in compliance with the terms and conditions issued by RBI for qualification. A key characteristic of PNCPS is that there can be no maturity date and no step ups or other incentives to redeem with an exception to call option exercisable by the Bank not earlier than the fifth anniversary of the deemed date of allotment. The rate of dividend payable to the investors may be either a fixed rate or a floating rate referenced to a market determined rupee interest benchmark rate.

The claims of the investors in the instruments are:

- Superior to the claims of investors in equity shares;
- Subordinated to the claims of Perpetual Debt Instruments (PDIs), all Tier 2 regulatory capital instruments, depositors and general creditors of the Bank; and
- Is neither secured nor covered by a guarantee of the issuer nor related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis Bank creditors.

Tier II Series name	Issue Amount (Rs. in Lakhs)	Issue date	Date of Redemption	Basel III complaint (Y/N)	Contractual Dividend rate (% p.a.) (on a fixed rate basis)
PNCPS	20,000	9th Feb 2017	Perpetual	Yes	11% p.a.

6.1.3. Subordinated Debt Instrument

The Bank has fully repaid its subordinated debt obligations and has no immediate plans for any floatation to augment its Tier 2 capital.

7. Table DF- 3: Capital Adequacy

7.1 Qualitative Disclosures

The Bank has been well capitalized since inception. As required by RBI in its operating guidelines to SFBs[10], the Bank is required to adopt the Standardized approach for Credit Risk and maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 15% segregated as under:

Requirement	Threshold
Minimum Capital Requirement	15%
Minimum Common Equity Tier 1	6%
Additional Tier I	1.5%

[10] Refer RBI guidelines on Operating Guidelines for Small Finance Banks issued vide DBR.NBD.No.26/16.13.218/2016-17 dated October 6, 2016

Minimum Tier I capital	7.5%
Tier II Capital	7.5%
Capital Conservation Buffer	Not applicable
Counter- cyclical capital buffer	Not Applicable
Pre-specified Trigger for conversion of AT I	CET1 at 7%

While SFBs are required to comply with Basel II norms for Capital Adequacy, as would be noted from the table above, some elements of the capital structure, such as Common Equity and Additional Tier 1 requirement, are from Basel III guidelines. In essence therefore, in the case of SFBs, the Regulator has adopted a hybrid model.

SFBs are not required to have a separate capital charge for Market Risk and Operational Risk for the time being in terms of an RBI communication dated 8th November 2017 marked DBR. NBD. No. 4502/16.13.218/2017-18. However, as a good governance practice, and as directed by its Board, the Bank separately computes capital charge for all the Pillar 1 risks viz. Credit, Market and Operational Risk following the Standardized Approach (SA) for Credit Risk, Standardized Duration Approach(SDA) for Market Risk and the Basic Indicator Approach(BIA) for Operational Risk. In computing capital charge for Operational Risk, the Bank has used Gross Income for the first two completed years of operation, progressively increasing it each quarter, till it has a record of three completed years of operation. This necessarily implies increasing Operational Risk RWA on a quarter on quarter basis, which is cushioned by improved profitability to minimise any impact on the overall capital adequacy position of the Bank.

In addition to the hybrid model for complying with capital adequacy requirement, for its internal and regulatory reporting, the Bank also complies with certain aspects of Basel III requirement, such as computation and maintenance of RBI prescribed minimum Liquidity Coverage Ratio (LCR) and Leverage Ratio (LR).

The disclosures pertaining to capital adequacy are as per the Generally Accepted Accounting Practices (GAAP). Financial statements under Ind-AS regime have been deferred by RBI until further notice and hence a comparison of capital adequacy under both the regimes will be presented after the same is made applicable for the Bank.

7.2 Quantitative Disclosures

The break-up of Basel II capital funds as at 30th September 2019 is as follows:

Rs. in lakh

Capital Funds		
	Position as on 30th September 2019	**Amount**
A	**Tier I Capital**	
A.1	Paid-up Share Capital	1,44,004
A.2	Reserves	33,884

A.3	Perpetual Non-Cumulative Preference Shares	20,000
A.4	Minority Interest	-
B	**Deductions**	
B.1	Investments in instruments eligible for regulatory capital of financial subsidiaries/associates	-
B.2	Securitisation exposures including credit enhancements	1,383
B.3	Deferred Tax Assets	3,974[11]
B.4	Good will and Adjustments for less liquid position/intangibles	10,460
C	**Net Tier 1 Capital**	1,82,072
D	**Tier II Capital**	
D.1	General Provisions	6,761
D.2	Investment Fluctuation Reserve	1,460
D.3	Lower Tier 2 capital instruments	-[12]
E	**Deductions**	
E.1	Investments in instruments eligible for regulatory capital of financial subsidiaries/associates	-
E.2	Securitisation exposures including credit enhancements	1,383
F	**Net Tier 2 Capital**	6,839
F	Total Eligible Capital	1,88,910

Capital Requirements for Various Risks		
Sl.No	**Capital Requirements for various Risks**	**Amount(in Lakh)**
A	**Credit Risk**	1,50,384
A.1	For non-sec portfolio	1,50,384
A.2	For Securitized portfolio	NIL
B	**Market Risk**	225
B.1	For Interest Rate Risk	225
B.2	For Equity Risk	NIL
B.3	For Forex Risk (including gold)	NIL
B.4	For Commodities Risk	NIL
B.5	For Options risk	NIL
C	**Operational Risk**	16,002
D	**Total Capital Requirement**	1,66,612
E	**Total Risk Weighted Assets**	12,05,404
F	**Total capital funds of the bank**	1,88,910
G	Capital Adequacy Ratio of the Bank (%)	15.67%

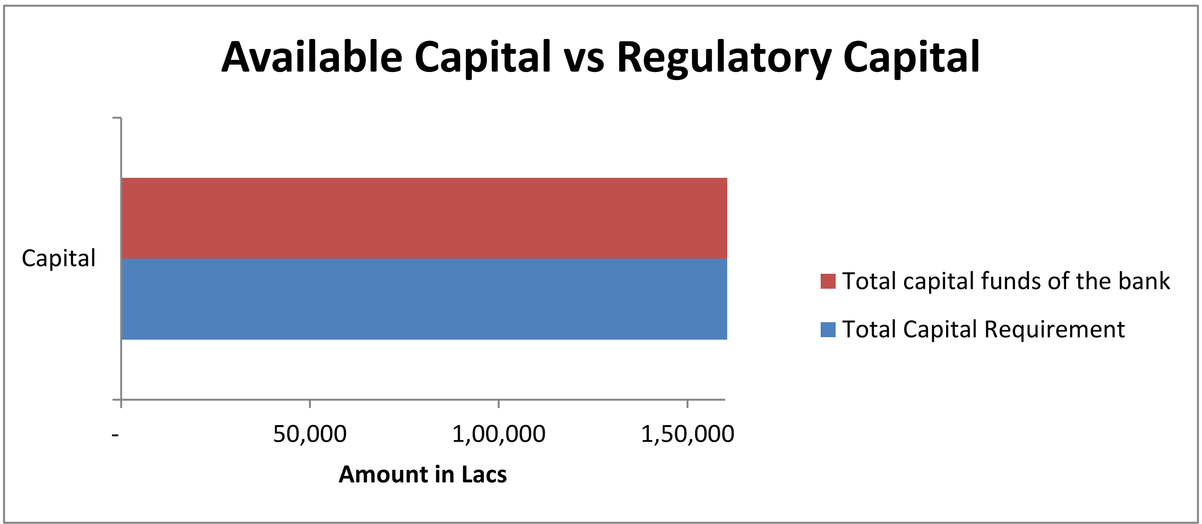
[11] Deferred Tax Assets has been reduced by Rs. 1, 174 lakh due to reduction in the effective tax rate of 34.94% to 27.77%.

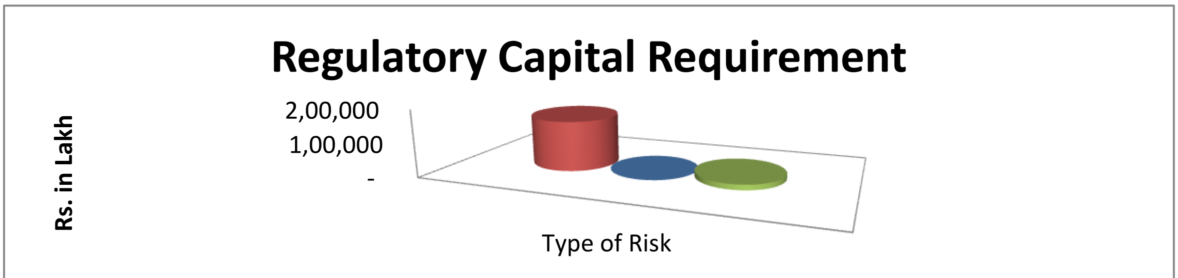
[12] The erstwhile subordinated debt instrument of Rs. 5,000 lakhs has been reclassified as Borrowings post RBI AFI audit. The RBI observed that the instrument in question had restrictive clauses w.r.t deployment of funds. This was not in alignment to the NCAF guidelines on Lower Tier II instruments.

Basel II Ratios as at 30th September 2019 (Rs.in Lakh)

Particulars	Amount/Ratio(Only Credit RWA)	Amount/ Ratio (all Pillar 1 risks)
Tier I Capital	1,82,072	1,82,072
Tier II Capital	6,839	6,839
Total Capital	**1,88,910**	**1,88,910**
Total RWA	**10,02,560**	**12,05,404**
Tier I Ratio	18.16%	15.10%
Tier II Ratio	0.68%	0.57%
CRAR	**18.84%**	**15.67%**

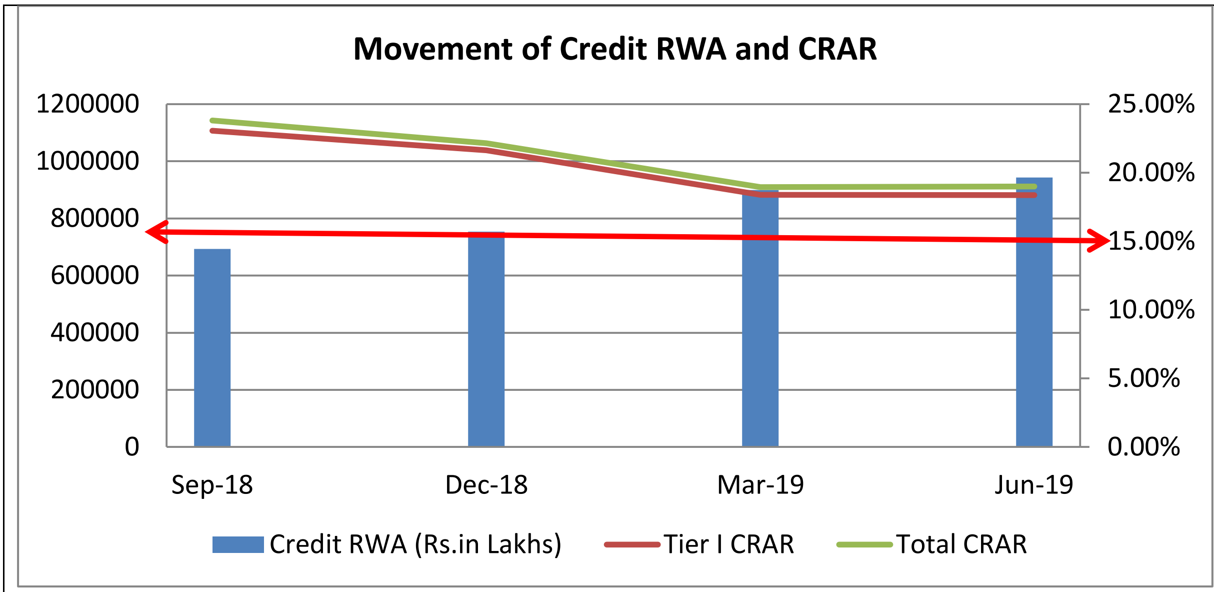
Graphical representation of capital position by reckoning *all three risks* is as below:





	Type of Risk
Credit Risk	1,50,384
Market Risk	225
Operational Risk	16,002

The movement of regulatory ratios on Credit RWA is shown as below:



*The red line indicates minimum CRAR requirements

8. Table DF- 4: Credit Risk: General Disclosures

8.1. Qualitative disclosures

8.1.1. Definitions of past due and impaired loans

A Non-Performing Asset (NPA), as defined by the RBI, shall be a loan or an advance where-

- Interest and/or instalment remains overdue for a period of more than 90 days in respect of a Term Loan;
- The account remains out of order for 90 days;
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted. The Bank does not offer Bill Discounting as a product.
- In case of advances granted for Agricultural purposes
  - The instalment or interest thereon remains overdue for two crop seasons for short duration crops
  - The instalment or interest thereon remains overdue for one crop season for long duration crops
- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.
- In respect of derivative transactions, the overdue receivables representing positive mark to- market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment. The Bank had no derivative transaction on its books.

8.1.2. Provisioning norms of the Bank

The Board reviews the provisioning norms of the Bank at regular intervals to determine if any enhanced provisioning is required based on credit performance. Despite a history of low Portfolio At Risk (PAR) and delinquencies, the microfinance portfolio of the Bank is unsecured and at times of extraneous events, as at the time of demonetization, it can have a debilitating impact on the portfolio. Taking cognizance of this and especially since the microfinance portfolio comprised 78.51% of the loan book as at 30th Sep 2019, the Bank has deemed it appropriate to follow a conservative approach in its provisioning policy. The provision particulars at the quarter end are provided below:

Rs. in lakh

Asset Class	Gross Advances	RBI mandated provisions[13]	Actual Provision made	%Provision
Standard	12,73,786	6,369	6,761	0.53%
Sub-standard	9,424	2,356	5,202	55.20%
Doubtful	1,266	1,266	1,234	97.47[13]
Loss	251	251	251	100.00%
Total	**12,84,727**	**10,242**	**13,448**	--

Presently, the Bank provides 0.50% on its standard asset portfolio against the RBI mandated figure of 0.40%. The Bank has received the approval of its Board to increase the standard asset provisioning on its unsecured book to 0.6%, but this will be effective from next financial year.

8.1.2.1. Provisions as per Expected Credit Loss (ECL) under Ind-AS

During FY 2018-19, RBI had issued a notification[14] that the legislative amendments recommended by the RBI were under consideration of the Government of India. Accordingly, it has been decided to defer the implementation of Ind AS till further notice. However, this deferral is applicable only to Scheduled Commercial Banks (SCBs).

The Ind AS transition continues to be applicable to Non-Banking Financial Services Companies (NBFC). Inasmuch as the financial accounts of the Bank are consolidated with that of the Holding Company, an NBFC, the Bank has also recast its financials using the Ind AS standards, including the computation of Expected Credit Loss (ECL). This is in addition to financial statements under Generally Accepted Accounting Principles (GAAP). The Bank, however, continues to report its financial statements according to GAAP norms.

As the accounts of the Bank are consolidated with that of its Holding Company at the year end, the Bank was required to compute key risk factors under ECL i.e. Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The consolidated accounts take into consideration the impact of ECL.

[13] Rough estimate. Standard assets are provided at 0.5%, sub-standard at 25% and Doubtful reckoned at 100%, (Secured loans with DPD 456-545 at 75% and 100% thereafter as per policy) and loss at 100%

[14] Refer RBI notification on Deferral of Implementation of Indian Accounting Standards (Ind AS) issued vide RBI/2018-2019/146 DBR.BP.BC.No.29/21.07.001/2018-19 dated 22nd March 2019.

8.1.3. Rescheduled loans

All loans, where the repayment terms of existing advances have been revised in order to extend the repayment period and/or decrease the instalment amount as per the borrower's request are marked as rescheduled loans. Loan rescheduling is done for genuine cases and not for technical reasons.

- Rescheduling results in an immediate downgrading of the loan, i.e. a standard loan becomes sub-standard and immediately attracts provision as per the asset classification and subsequent provisioning norms.
- If the account continues to deteriorate post rescheduling, it slips into further lower asset classification with reference to pre-rescheduling repayment schedule and attracts provisioning as per the policy.
- If a non-performing asset is rescheduled, it continues to have the same classification as prior to rescheduling and slips into further lower asset classification upon non-performance as per asset classification norms with reference to the pre-rescheduling repayment schedule and attracts provisioning as per policy. If the account performs regularly, it is upgraded after one year of satisfactory performance of the loan.
- As required by RBI guidelines, in each case of rescheduled loans for its MSE and Housing vertical, the Bank makes an additional provision by computing comparable NPVs for the "before" and "after" restructuring scenarios[15]. For the microfinance book, this is provided for as a percentage of the overall restructured book. These additional provisions are aimed to capture the loss due to diminution in the fair value of advances due to restructuring.

8.1.4. Write-offs

The following table provides the criteria for writing off loans for the different category of loans. The Bank, however continues its efforts on recovery even after writing off:

Category of loans	Trigger point
Unsecured loans	a) Doubtful and Loss assets can be written off after 180 Days Past Due (DPD) which are fully provided for b) Loss assets identified earlier based on specific reasons or circumstances can be written off after 180 DPD with Credit Risk Management Committee (CRMC) approval
Secured Loans	Can be written off after 545 DPD
Loss Assets classified as Benami loan/Sub lending/Abscond cases	a) Unsecured loans after 180 DPD b) Secured loans after 365 DPD c) Benami/Sub-lending cases may be written off earlier basis the report from Risk and Fraud Management Committee.

[15] Refer clause 17.4.2 of RBI guidelines on Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015.

Fraud Cases (As confirmed by the Risk and Fraud Management Committed and reviewed by the Risk Committee)	a) Unsecured loans after 180 DPD or immediately after the fraud have been established and full provision is made on the Bank's books. b) Secured loans after 365 DPD or immediately after the fraud have been identified and full provision made on the books. c) Any fraud account over and above Rs. 1 lakh can only be written off by the MD and CEO

For Q2 of FY 2019-20, the Risk Management Committee had approved write-offs to the tune of Rs. 1,685 Lakhs. These were advances which were provided for in full and where no recoveries had been made in the recent past. Further, the Bank is of the opinion that these advances have low probability of recovery. A summary of write off made in the current financial year is given as under:

Period	Amount (Rs. in Lakh)
Q1	1,570
Q2	1,685
HY 2019-20	3,255

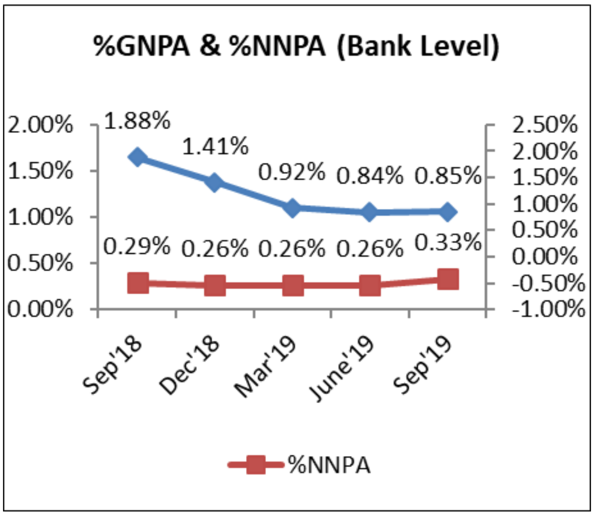
8.1.5. Credit Risk Management

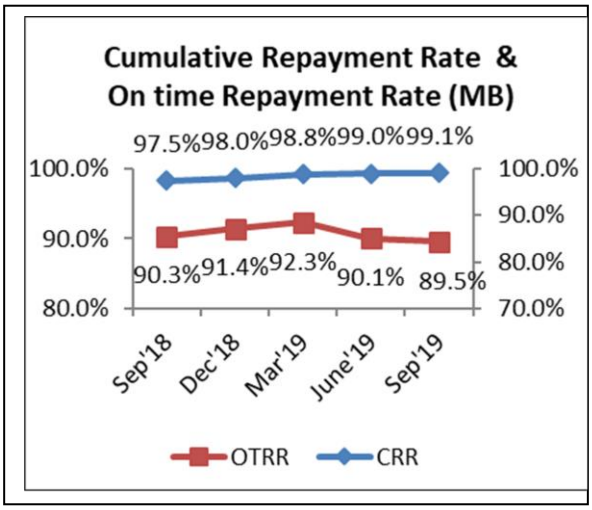
The overall distribution of gross advances as at 30th September 2019 was as under:

Rs. in lakh

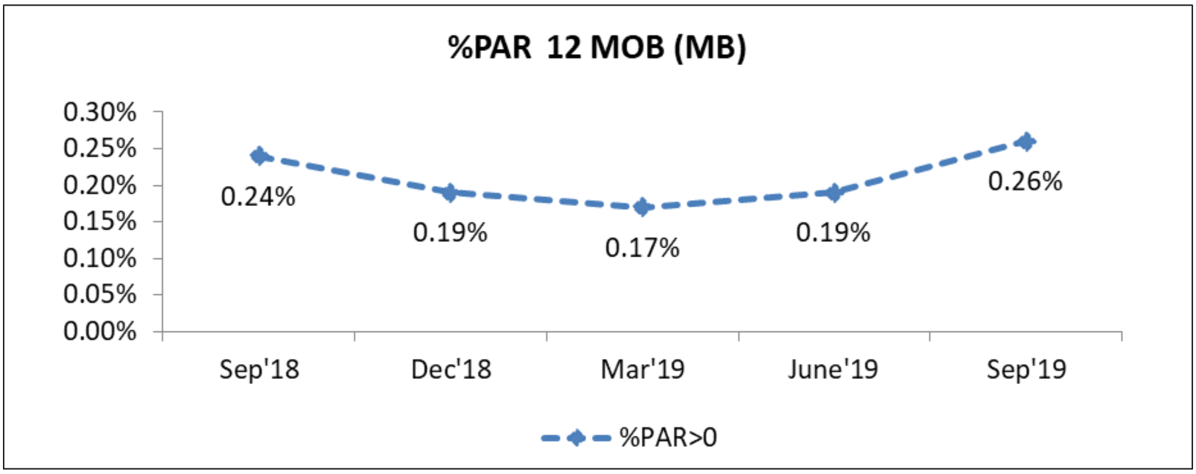
Gross Advances		
Particulars	**Amount**	**% Share**
Agri Loans	8,546	0.66%
FIG	52,827	4.11%
MFI	10,09,962	78.51%
Staff Loans	1,070	0.08%
Housing	1,21,193	9.42%
MSE-Secured	70,327	5.47%
MSE-Unsecured	13,107	1.02%
Personal Loans-Outside	5,110	0.40%
Two Wheeler Loans	67	0.01%
Advances against deposits	4,155	0.32%
Total	**12,86,366**	**100%**
Less Securitization	1,638	
Total Advances	**12,84,727**	

The Gross NPA (GNPA) had marginally increased to 0.85% from 0.84% as at June 2019. Key risk indicators such as Cumulative Repayment Rate (CRR) had shown encouraging trends affirming that the overall health of the credit portfolio was very close to predemonetization levels. On Time Repayment Rate (OTRR) has dropped during the quarter primarily due to floods and rains in various states of India.





The 12 Month on Books (MOB) advances showed an increasing trend in PAR due to floods, rains and holidays.



Micro banking loans sourced during the last 12 months (PAR > 0 DPD) was at 0.26%, an increase from Q1 (0.19%). The higher incremental default in Q2 was largely due to heavy rains and floods in various parts of the country and seasonal holidays. States of Kerala and Tamilnadu were affected by rains in FY 2018-19 while states like Odisha, Karnataka, Assam, Maharashtra and Bihar were affected in FY 2019-20 mainly on account of cyclones and excess rainfall. The repayment track in micro banking portfolio was impacted on account of the same. A deeper analysis on historical data revealed that micro factors like floods and cyclones exhibited a strong correlation to default rates. The same has been duly factored in the Bank's forward looking estimates for PD calculation under Ind-AS.

The detailed impact of natural calamities on states is furnished as below:

State	All Branches	Affected Branches

	# Branches	OSP (In lakh)	# Branches	OSP (In Lakh)	Repayment Holiday Accounts	Repayment Holiday Amount (In Lakh)
Odisha	14	32,000	8	19,100	27,900	6,430
Karnataka	68	1,27,800	11	18,200	3,978	740
Maharashtra	41	79,400	3	5,700	2,798	530
Assam	18	45,700	9	25,300	0	-
Bihar	33	66,100	1	3,900	0	-
Madhya Pradesh	11	17,900	9	14,900	0	-
Total	**174**	3,51,000	**32**	72,200	**34,676**	7,700

A deep-dive analysis on the affected states is provided below:

State	Current status/Strategy
Odisha	%PAR has reduced to 2.8% in Q2, from 20.4% in May'19. The Bank has added Rs. 35 lakh of credit cost in H1 and is expecting an additional cost of ~Rs. 30 lakh to Rs. 40 lakh loss from this affected portfolio during H2.
Karnataka and Maharashtra	Overall 14 branches were affected in Kolhapur, Sangli & North Karnataka. The Bank has provided repayment holiday to 4,257 accounts as per SLBC guidelines and taken 5% credit cost on this portfolio in September 2019.
Assam and Bihar	9 branches of Assam and 1 Bihar branch were severely impacted due to flood in Q2. Customers have faced temporary cash flow issues which have resulted in an increase in PAR across these branches. No Repayment holiday has been provided herewith in the absence of SLBC notifications. Projected credit cost is Rs. 12 lakh from both the states combined is expected.
Madhya Pradesh	9 out of 11 MP branches were impacted due to floods in Q2. Customers involved in agri business have been severely impacted; hence the recovery progress is comparatively slow in the state. Relief measures were undertaken across all locations and repayments are coming in with a lag.

8.1.5.2. Non-Microfinance Portfolio

The non-microfinance portfolio includes advances for secured Housing, MSE loans, Agriculture Loans, Personal loans and Institutional lending. The entire non-microfinance loans contributed to 21.49% i.e. (2, 76,404 Rs. lakh) of the total advances. From a risk management perspective, the Bank has put in place various frameworks for risk identification, risk measurement, risk mitigation and risk monitoring. The intended purpose was to establish a robust governance, risk and compliance framework for the newer portfolios. These frameworks would help the Bank to identify incipient stress and provide early warning signals of stress.

A brief description of the performance in each category is furnished as below:

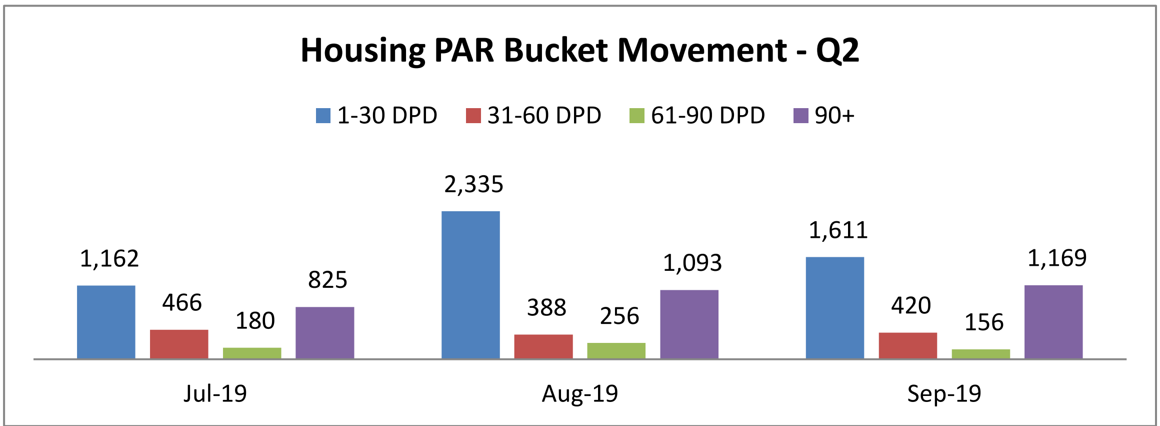
8.1.5.2.1. Secured Housing

Rs. in lakh

Housing Loans	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Y-o-Y Growth%
South	16,502	20,617	25,660	30,618	36,605	122%
North	12,602	13,959	15,509	16,892	18,526	47%
East	5,271	7,058	9,325	11,563	14,633	178%
West	18,879	25,132	32,505	41,534	51,406	172%
Grand Total	**53,254**	**66,767**	**82,998**	**1,00,607**	121,169	128%

The performance of Secured housing loans has largely been satisfactory with an exception to a few states/clusters where there are signs of early warnings. The quarter witnessed the secured housing portfolio crossing the 15000+ customer benchmark. The Bank has received Rs. 1,553 lakh of subsidy under the Prime Minister Awaz Yojana in September 2019 which will benefit 697 customers. Overall, the Bank had received a total subsidy of Rs. 3,435 lakh benefitting 1,577 customers. The Bank intends on exploring the commercial property segment in the ensuing quarter which can help in increasing the yields. Digitalization of file sourcing (tab-based banking) is underway and expected to be piloted during the ensuing quarter. The Bank has also explored ways to further optimize operational efficiency in the areas like document management, utilization checks and collateral valuation.

The movement in PAR is as below:



8.1.5.2.2. Micro and Small Enterprises (MSE):

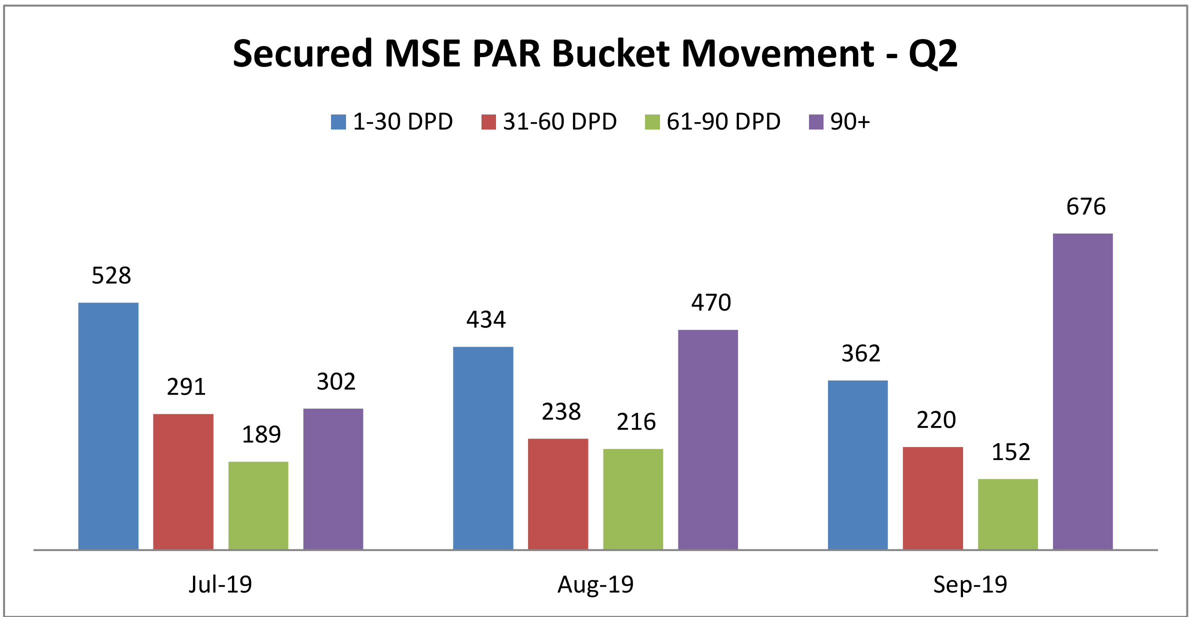
Rs. in lakh

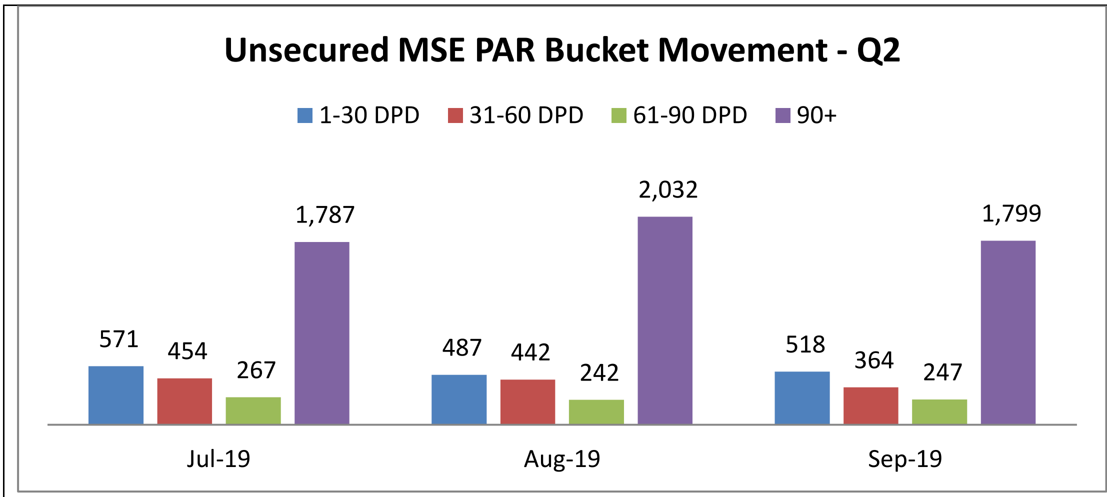
Region	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Y-o-Y

						Growth%
South	10,518	13,614	17,695	19,985	23,827	127%
North	10,318	12,931	16,209	18,481	20,277	97%
East	9,134	12,014	16,874	20,218	26,577	191%
West	5,322	6,478	8,307	9,830	12,716	139%
Grand Total	**35,293**	**45,037**	**59,084**	**68,514**	**83,396**	136%

During the quarter, the Bank has expanded its MSE product offering to include alternate collateral. The Bank has taken cognizance of the underlying risks in this market and had internally defined triggers for active monitoring. The Bank has expanded its offerings in states like Kerala, Uttarakhand, Assam and Punjab As at 30th September 2019, the share of secured loans within MSE has reached 84% of the total MSE loan book. To improve / monitor its asset quality, the Bank has implemented "cluster improvement plan' with specific credit tightening in stressed sectors based on internally defined triggers at cluster level. Through this initiative, the Bank has tightened credit appraisal criterion, raised delegation of sanction to higher authorities and provide focused efforts on collections and recovery. These clusters are continuously monitored until such time improvement is shown especially w.r.t arresting PAR.

The movement in PAR is as follows:





The Bank has completely stopped its unsecured MSE product and the residual amount is being allowed to run off. Collection effort has been stepped up in the clusters that are affected to contain further slippages.

8.1.5.2.3. Agriculture and Rural Business

The newly commenced business vertical for Agriculture and Rural Business had performed well and a summary of their key indicators is given below:

Rs. in lakh

Particulars	Sept 2018*	December 2018*	March 2019*	June 2019*	Sept 2019*
QTD Disbursement	3,300	4,600	10,400	11,540	16440
YTD Disbursement	5,100	9,800	20,500	11,540	27940
Outstanding Principal	6,600	9,900	18,500	28,740	39460
Ticket Size	30,588	32,056 (GL) and 77,109 (IL)	30,543 (GL) and 78,830 (IL)	28,832 (GL) and 90719 (IL)	30,459 (GL) and 95,639 (IL)

*rounded to nearest 100

As of Sep 30th 2019 total borrower base for Rural Banking was 1, 39,373 of which 65% comprised Agri Group Loans (90,157 active Agri Loan borrowers). During the Quarter new product variants were added to Agri Group Loan. The Bank also added 8 new rural branches during the quarter in the green field states of Uttar Pradesh and Rajasthan.

8.1.5.2.4. Loans to Financial Institutions

The Bank commenced building a book of loans to Non-Banking Financial Companies in October 2018, with an approval from the Board. It was considered opportunistic to delve into this segment not only to diversify the asset portfolio of the Bank, but also to capitalise on its knowledge of the sector and the strength of the large capital base that the Bank has. As at 30th September 2019, the Bank had built a portfolio of loans to Financial Institutions of Rs. 52,827 lakh. The Bank has been selective in building this portfolio to establish meaningful relationships with financial institutions. With this portfolio, the Bank aims to explore various diversification benefits including sourcing of institutional deposits. In appraising the requirement, the Bank lays equal emphasis on governance and financial parameters of the borrowing company, with the portfolio heavily skewed towards NBFC-MFI, a segment where the Bank has considerable expertise and historical association.

8.1.5.2.5. Personal Loans (PL)

In its effort to diversify the composition of its asset book, the Bank has rolled out its Personal Loan product in select cities and has garnered tremendous interest across these locations. This is evidenced by the large influx of online applications and significant share of business from the online platform. A key development is the revision in the PL policy which is slated to improve approval rates from current levels and also help build operational efficiency. The priorities for the first two quarters were to launch in new markets, scale distribution across all channels and also explore partnerships with select Fintech companies on a dynamic lending program.

As at 30th September 2019, the total loan book was Rs. 5,110 lakhs.

8.1.5.2.6. Vehicle Finance

During the quarter, the Bank has finalized various policies, processes and agreements for launching its 2 and 3 wheeler loans. The Bank has signed a Memorandum of Understanding (MOU) with Kinetic Green and Green Shuttle Technologies for financing electric rickshaws (E-rickshaws). The Bank is currently exploring other tie-up options and increasing its manpower requirements across regions.

8.1.6. Credit Risk Monitoring

8.1.6.1. Micro finance portfolio

The Bank undertakes portfolio monitoring on a periodic basis with specific focus on key portfolio triggers. Decisions w.r.t. business continuity and new customer acquisition at branch level/state level are taken by the Credit Risk Management Committee. The Bank has defined quantitative trigger limits w.r.t early delinquency rates, On-time repayment rates and spurt in business growth. Any exception to the internally defined thresholds is reviewed by the Head of Credit and Collections- Micro banking. The Bank monitors the health of its micro banking portfolio at branch level through its branch scorecards. These scorecards assess the performance on various parameters such as Incremental Overdues, error rates, Non-starter cases, collection performance etc. The Bank undertakes its portfolio monitoring separately for Group Loans (GL) and Individual Loans (IL) within the micro banking segment.

8.1.6.2. Housing and Micro and Small Enterprises (MSE) portfolios

Credit risk monitoring for MSE and Secured Housing loans is broadly done at two levels – account level and portfolio level. While regular portfolio reviews are undertaken to assess the health of the portfolio, the Bank has also assessed inter-linkages of risks especially legal risk induced *credit* risk. Collateral related processes and procedures were reviewed to ascertain various gaps in the process. The Bank seeks to address these gaps during the financial year which will help in reduction of errors and associated risks. The Bank has designed monitoring mechanisms at process level encompassing credit deviations, collateral management, documentation etc., Regular reports are placed to the CRMC for direction.

During Q4 of FY 2018-19, the Bank had designed risk rating scorecards at product level and customer segment level for its MSE and Housing loan portfolio respectively. These scorecards were designed on expert judgement basis. The scorecards are designed to provide an objective and unbiased assessment on potential customers duly factoring their personal, income, repayment track records and collateral aspects. The Bank has completed the necessary changes and modifications at system level for implementation with User Acceptance Training (UAT) at advanced stages of completion. The same is expected to be in place during the third quarter of FY 2019-20.

8.1.7. Audit

The Bank is subject to **statutory audit** as per the provisions of section 29 of the Banking Regulation Act, 1949, accounting standards issued by ICAI[16], circulars and guidelines issued by RBI as applicable to banks and other matters which are required to be included in the audit report.

The **Internal Audit** process of the Bank complements the risk management function as the third line of defence. Traditionally, the focus was on audit of branch processes, with each microfinance branch being audited thrice a year. However, with its transformation into a Bank, there are newer audit processes that have been introduced with Risk Based Internal Audit having commenced. The Bank has built a strong team for various audit verticals at HO and ROs, the aim being to ensure that there are no policy deviations and that due processes are followed to assess the operational risk environment and as it seeks to diversify its asset book and build its asset and liability portfolio.

The Internal Audit Department of Bank has five audit verticals covering Branches, Central Functions, IS Audit, Credit Audit and Concurrent Audit of Branches. Annual audit encompassing all the audit areas is prepared and submitted to Audit Committee of Board and quarterly progress is also presented.

[16] Institute of Chartered Accountants of India

As per RBI guidelines on **Concurrent Audit** System in Commercial Banks[17], Concurrent audit at branches should cover at least 50% of the advances and 50% of deposits of a bank. In addition to these, there are specific branches/verticals which fall under the ambit of concurrent audit as per the RBI guidelines.

Accordingly the Bank has identified 180 branches that contributed to 50% of advances and 50% of deposits of the bank as per 31st March 2019 balance sheet figures to be covered under concurrent audit. Similarly, few critical processes / functions at Head Office are also covered under concurrent audit. The Bank has put in place a Board approved Concurrent Audit Policy. The audit reports along with gaps identified and are regularly placed to the Audit Committee of the Board for further action.

8.2. Quantitative Disclosures

8.2.1. Exposure summary: Facility type

Exposure Type	Domestic (Rs. in Lakh)	Overseas
Fund- Based exposure	16,03,043	--
Non- Fund Based Exposure*	23,494	--
Total	16,26,537	--

*Non fund based exposure includes undrawn limit to Overdrafts, Secured Housing and MSE customers and Contingent liabilities.

8.2.2. Geographic Distribution of advances (State-wise)

Rs. in lakh

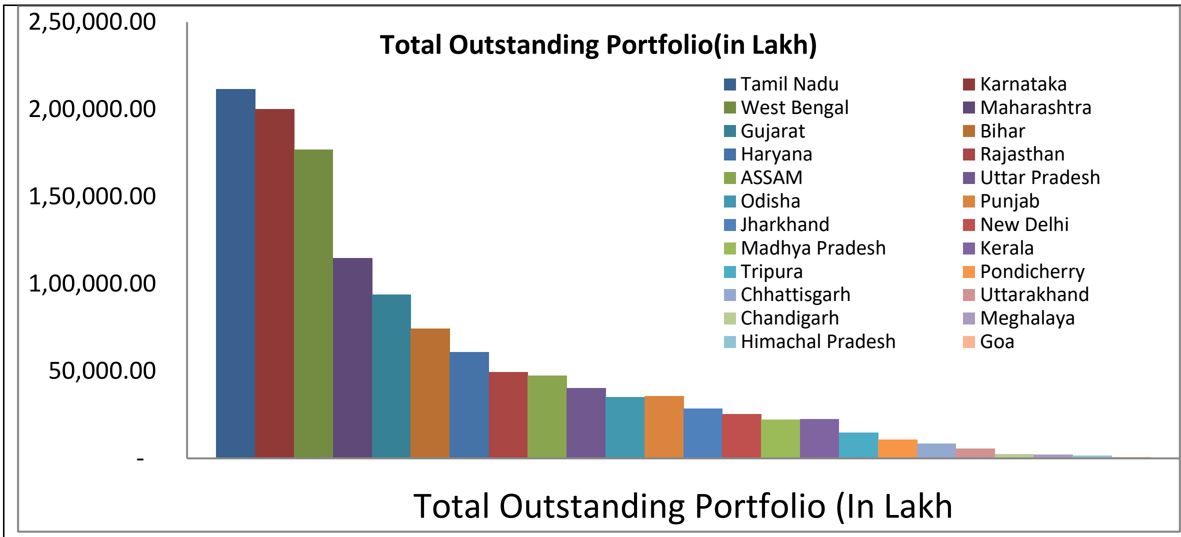
State	Total Outstanding Portfolio (In Lakh
Tamil Nadu	2,11,598.23
Karnataka	2,00,257.38
West Bengal	1,76,841.17
Maharashtra	1,14,692.08
Gujarat	93,635.83
Bihar	74,400.57
Haryana	60,884.76
Rajasthan	49,248.80
Assam	47,435.99
Uttar Pradesh	40,366.21
Odisha	35,054.20
Punjab	35,722.04

[17] Refer RBI guidelines on Concurrent Audit System in Commercial Banks - Revision of RBI's Guidelines issued vide RBI/2015-16/133 DBS.CO.ARS.No. BC. 2/08.91.021/2015-16 dated 16th July 2015

Jharkhand	28,520.97	2.22%
New Delhi	25,249.79	1.97%
Madhya Pradesh	22,234.96	1.73%
Kerala	22,412.75	1.74%
Tripura	14,856.87	1.16%
Pondicherry	10,595.94	0.82%
Chhattisgarh	8,390.02	0.65%
Uttarakhand	5,407.73	0.42%
Chandigarh	2,410.19	0.19%
Meghalaya	2,118.67	0.16%
Himachal Pradesh	1,578.27	0.12%
Goa	814.11	0.06%
Grand Total	**12,84,727.54**	**100%**

The share of microfinance advances constituted 78.51% (i.e. Rs. 10, 09,962 lakhs) of gross advances, a significant share in the above distribution. In order to contain excess build-up of concentration risk, the Bank has designed and incorporated risk assessment framework under its Internal Capital Adequacy and Assessment Process (ICAAP) to monitor the same. For states with excess concentration, Pillar II capital charge is provided after duly factoring in the expected defaults, expected tractions and expected provisions. It is pertinent to mention that when computing capital requirement and its compliance with capital adequacy, the Bank factors in additional capital charge on account of Pillar 2 risks and also that required for stress tests on its portfolio under normal circumstances.

For MSE and secured housing loans, the Bank monitors the excess build up in concentration through prudential internal limits on higher ticket size loans. These limits are approved by Credit Risk Management Committee (CRMC) and are monitored and reported for corrective action.



8.2.3. Advances distribution by activity

Rs. in lakh

Sector	Outstanding Total Advances	Gross NPAs	% of Gross NPAs to Total Advances in that sector
Priority sector:			
Agriculture and allied activities	1,47,578	1,486	1.01%
Advances to industries eligible as priority sector lending	33,027	310	0.94%
Services	45,997	734	1.60%
Personal loans	3,87,699	4,505	1.16%
-of which Housing Loans	1,61,317	1,499	0.93%
Sub-Total (A)	**6,14,302**	**7,036**	**1.15%**
Non-Priority sector:			
Agriculture and Allied activities	1,94,054	22	0.01%
Services	1,64,659	2,882	1.75%
-of which NBFC Loans	52,240	-	0.00%
Personal loans	3,11,713	1,001	0.32%
-of which Housing Loans	43,196	468	1.08%
Sub-Total (B)	**6,70,425**	**3,905**	**0.58%**
Total (A) + (B)	**12,84,727**	**10,940**	**0.85%**

8.2.4. Priority Sector Lending (PSL) Compliance

The licensing conditions for SFBs require that PSL composition of a bank's asset book is a minimum of 75% of the total portfolio.

The Adjusted Net Bank Credit (ANBC) as on the corresponding date of the preceding year i.e. 31st March 2019 was Rs. 7, 97, 825 Lakh. The Priority Sector lending was above the minimum requirement at 76.99% (Rs. 6, 14, 302 Lakh) as a percentage to ANBC. The PSL portfolio available in excess of the Bank's target was sold as Priority Sector Lending Certificate (PSLC).

Rs. in lakh

Particulars	Year ended 30th September 2019
	PSLC Sold
1) PSLC Agriculture	-
2) PSLC Small Farmers / Marginal Farmers	1,94,000
3) PSLC Micro Enterprises	60,950
4) PSLC General	1,60,000
	4,14,950

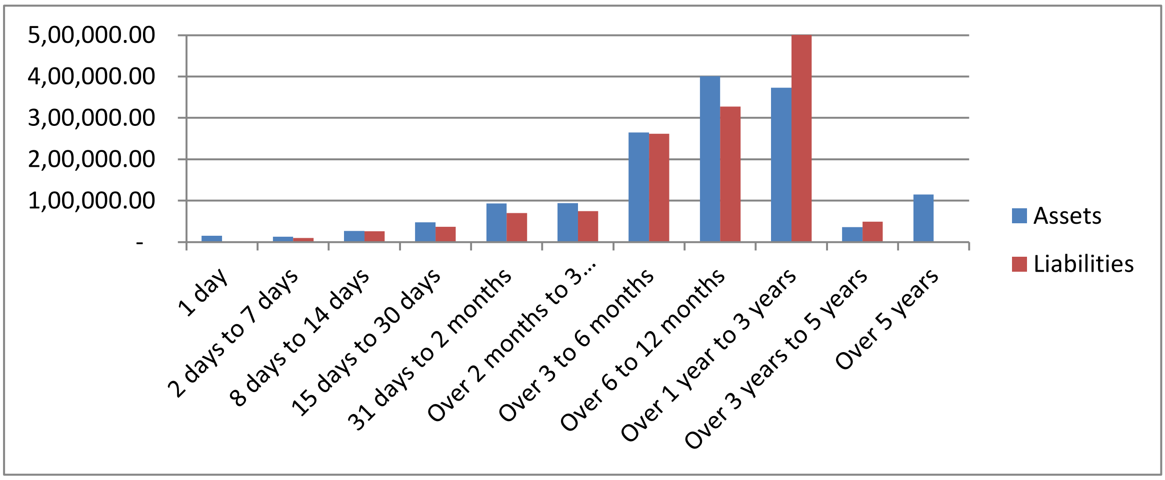
8.2.5. Maturity pattern of assets and liabilities (Rs. in lakh)

The Bank has continued to be highly liquid with surplus on a day to day basis being invested in call market. It has managed its funding requirement through a mix of retail and institutional deposits, progressive build-up of CASA balances, with a small balance being met through Certificates of Deposits. The Bank managed it ALM position effectively ensuring that there was no mismatch and that the mandatory buckets were not breached. To ensure that any incipient stress on these first four buckets is countered, the Bank has built an excess reserve of SLR securities that provides the required cushion in times of stress on the first four buckets. Conversely, when the position has eased, the excess is used to tap the repo market to meet the Bank's short term funding requirement. In a declining interest scenario, accessing the repo market aids the Bank's effort to reduce the cost of funding.

Rs. in lakh

	Loans & Advances	Investment	Deposits	Borrowings
1 day	4.27	15,759.03	1,429.57	-
2 days to 7 days	12,235.56	924.41	10,249.97	-
8 days to 14 days	25,156.06	1,861.93	10,090.61	16,257.00
15 days to 30 days	40,377.25	7,167.15	37,228.18	-
31 days to 2 months	80,148.25	13,134.63	65,994.43	3,933.33
Over 2 months to 3 months	81,271.04	13,008.60	64,619.88	10,433.33
Over 3 to 6 months	2,21,262.70	43,766.96	1,92,613.00	68,997.00
Over 6 to 12 months	3,47,699.91	52,768.14	2,54,641.92	72,730.33
Over 1 year to 3 years	3,19,618.07	53,062.80	3,74,228.05	1,27,166.00
Over 3 years to 5 years	35,687.24	319.78	1,609.34	47,500.00

Over 5 years	1,14,579.51	65.63	279.95	-
Total	12,78,039.86	2,01,839.05	10,12,984.89	3,47,017.00



SLS Mismatch:

Rs. in lakh

SLS	1 Day	2-7 Days	8-14 Days	15-30 Days
Total Outflows	40,416	13,260	28,871	40,797
Cumulative Outflows	40,416	53,676	82,548	1,23,344
Total Inflows	61,821	14,676	27,752	62,804
Cumulative Inflows	61,821	76,497	1,04,249	1,67,053
Mismatch	21,405	1,415	-1,120	22,008
Cumulative Mismatch	21,405	22,821	21,701	43,709
Mismatch %	53%	11%	-4%	54%
Cumulative Mismatch%	53%	43%	26%	35%

As shown above, the Bank is positively matched (the cumulative inflow is greater than cumulative outflows).

The Bank has commenced a behavioural analysis of cash flows, especially for its Current Accounts and Savings Account balances using Value at Risk (VaR) based approaches to identify potential mismatches. The analysis is done on the basis of two years data and is expected to be repeated at regular intervals so as to form a constructive basis when the Bank has three years data. Aside from providing critical input on the churn and the likely impact that such churn can have on the liquidity mismatch, the analysis is intended to be the basis for devising strategy to stave off any flight of short term deposits, as the Bank focuses on building its CASA volumes. In addition to behavioural analysis for crucial day 1 liabilities, like DD payable accounts, OD undrawn and other factors are being conducted.

The Bank continues to monitor impact on liquidity under simulated stress situations by applying the RBI mandated increase in the run off factors. The analysis has shown that the ALM situation remained comfortable in normal stress scenarios, with only marginal mismatch in medium and severe stress situations.

8.2.6. Non-performing assets (NPA) (Rs. in Lakh)

Category of Gross NPA	30th September 2019
Sub-standard	9423
Doubtful	1,266
Loss	251
Total	**10,940**

Net NPA	4,253

NPA Ratios	Percentage
Gross NPA to Gross Advances	0.85%
Net NPA to Net Advances	0.33%

8.2.7. Movement of Gross NPA's

Particulars	Amount (Rs. In lakh)
Opening Balance	9,785
Additions during the period	6,542
Reductions during the period	5,387
Closing Balance	10,940

8.2.8. Movement of Provisions for NPA's (excluding provisions on standard assets)

Particulars	Amount (Rs. in lakh)
Opening Balance	7,030
Provisions made during the period	3,780
Write back of excess provisions	4,124
Closing Balance	**6,687**

8.2.9. Non-performing Investments (NPI)

Amount of Non-performing investments	NIL
Amount of provisions held for non-performing investments	NIL

8.2.10. Movement of provisions for depreciation on investments

Particulars	Amount
Opening Balance	--

Provisions made during the period	--
Write-off	--
Write- Back of excess provisions	--
Closing Balance	**--**

9. Table DF-5: Credit Risk: Disclosures for portfolios subject to the Standardised Approach

9.1. Qualitative Disclosures

a) The Bank has adopted Standardized Approach for computation of capital charge for Credit Risk as per RBI guidelines. These guidelines envisage different risk weights for different asset classes, which have been duly applied.

b) The loan book of the Bank predominantly comprised retail category loans. There was a small book comprising loans to Financial Institutions and a growing portfolio of loans to Affordable Housing sector and to MSE. Therefore, the risk weights as applicable to Regulatory Retail, Claims under Residential Mortgage and staff loans were applied. For consumer loans within its microfinance portfolio, the applicable risk weight is applied.

c) During the quarter, RBI, on a review, has decided to reduce the risk weight for consumer credit including personal loans, but excluding credit card receivables, to 100%.[18] This has enabled that Bank to apply 100% risk weight on its micro banking loans (consumption loans) and personal loans segment.

d) Institutional lending is risk-weighted as per ratings assigned by Eligible Credit Rating Agencies (ECRA) as prescribed by RBI.

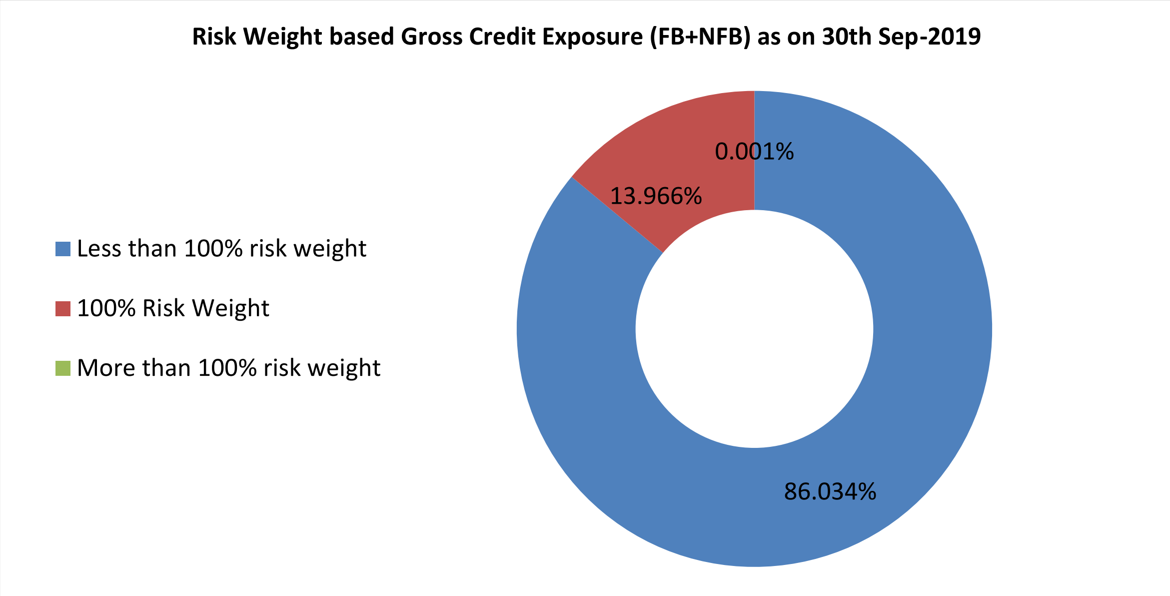
e) As on 30th September, 2019, the Bank had a residual outstanding as "grandfathered" loans which comprised about 1% of its funding book. As per regulatory guidelines, there was an additional risk weight of 25% is assigned to this portfolio.

9.2. Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on 30th Sept 2019		
Sl.No	**Risk Weight**	**Rs. in lakh**
1	Below 100% Risk Weight	1,399,369.10
2	100% Risk Weight	227,158.04
3	More than 100% Risk Weight	10
4	Deductions from CRM	(477.50)

[18] Refer RBI guidelines on **Risk Weight for Consumer Credit except credit card receivables** issued on 12th September 2019

5	**Total**	1,626,059.63



10. Table DF-6: Credit Risk Mitigation: Disclosures for Standardised Approach

10.1. Qualitative Disclosure

- The Group Loan and Individual Loan portfolio, under microfinance is unsecured. Loans to the Affordable Housing segment are collateralized by a mortgage over the property financed. There are unsecured and secured product variants under MSE loans. Loans to Financial Institutions are secured by a charge over book debts which are registered with CERSAI.
- The Bank accepts Eligible Financial Collateral[19] for risk mitigation under secured Institutional lending and MSE loans. These financial collaterals are netted off for its collateralized transactions under comprehensive approach[20] while computing its Risk Weighted Assets (RWA).
- The Bank has a Portfolio Review/ Loan Review Mechanism (LRM) to review the health of the portfolio/ borrowers and work on mitigation of any risk associated with the portfolio or borrower in particular.
- The Bank has in place the following risk mitigation techniques for its loan portfolio which are as follows:
    - Life insurance cover is mandatory for all the borrowers availing of the Bank's

[19] Refer section 7.3.5 of Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline New Capital Adequacy Framework (NCAF) dated July 1, 2015

[20] Refer section 7.3 of Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline New Capital Adequacy Framework (NCAF) dated July 1, 2015

microfinance, housing, two wheeler and personal loans.

- The Bank works with 4 Credit Information Companies (CICs) and ensures 100% application screening through the bureaus using their comprehensive credit reports.
- NPA Customers are identified and follow up is undertaken by the tele-calling team. The tele calling team updates the field recovery officer through revised Promise to Pay (PTP) dates from the borrower. Further, the Early Warning System (EWS) tool for Housing and MSE loans also enables the Bank to monitor the repayment behaviour and discipline of the borrower. This tool provides valuable insights which enable the Bank to focus more on customers deemed to be of higher risk.
- The Bank also undertakes independent surveys and analysis to identify negative areas/No- go areas based on historical events. These surveys enable the Bank to discourage increasing business from these areas as identified above.

11. Table DF-7: Securitisation Exposures: Disclosure for Standardised Approach

11.1. <u>Qualitative Disclosure</u>

The Bank had entered into a securitization deal on the sell side for Rs. 18,211 lakh on 31st October 2018. The Bank had proposed to sell a pool of receivables through a special purpose vehicle (SPV). The securitization met the 'true sale criterion' prescribed under the securitization guidelines. The outstanding balance under securitization was Rs 1638 Lakh as on 30th September, 2019.

As per RBI guidelines on securitization[21], banks are required to hold regulatory capital against all of their securitisation exposures, including those arising from the provision of credit risk mitigants to a securitisation transaction, investments in asset-backed securities, retention of a subordinated tranche, and extension of a liquidity facility or credit enhancement.

Furthermore, when a bank is required to deduct a securitisation exposure from regulatory capital, the deduction must be made of 50% from Tier I and 50% from Tier II, except where expressly provided otherwise.

Accordingly, the Bank has deducted the over collateralization and credit enhancement portion from its regulatory capital in the manner as prescribed above.

11.2. Quantitative Disclosure

Sl. No	Description	Particulars (Rs. in lakh)

[21] Refer Clause 5.16 of Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline-New Capital Adequacy Framework (NCAF) dated 1st July 2015

1.	Pool Size (Principal+ Interest)	Rs. 18,211
2.	Pool Principal	Rs. 16,029
3.	PTC Tranche	1
4.	Par/Premium	Par
5.	Amortization of the pool	19.79 months
6.	Purchased consideration	Rs. 13,945
7.	Overcollateralization	Rs. 2,084
8.	First Loss Credit Enhancement Amount	Rs. 681

12. Table DF- 8: Market Risk and Liquidity Risk

12.1. Qualitative Disclosures

The Bank has a well-defined Investment and Market Risk Management Policy. This policy covers all important areas of market risk identification, monitoring and measurement. The other policy which primarily deals with Liquidity Management is the Asset Liability Management (ALM) Policy. The policies set various prudential exposure limits and risk limits for ensuring that the operations are in line with the Bank's expectations of return through proper Market Risk Management and Asset Liability Management.

The Bank defines Market Risk as the risk of loss in on-balance sheet and off-balance sheet positions arising from movements in market process, in particular, changes in interest rates, exchange rates and equity and commodity prices.

The Treasury department of the Bank primarily deals in the following instruments:

1) Government of India Securities (G-Sec)
2) State Development Loans (SDL)
3) Treasury Bills (T-bill)
4) Commercial Paper (CP_
5) Certificate of Deposits (CD)
6) Mutual funds (MF)

As at 30th September 2019, the Bank had exposure to G-Secs, SDL and T-bills for the purpose of maintaining Statutory Liquidity Ratio (SLR). In addition to this, the Bank also had exposure to unquoted equity exposure to the tune of Rs. 10 lakh. G-Sec and SDL are classified as Held Till Maturity (HTM) while T-bills are classified as Available for Sale (AFS). Since, T-bills are not required to be Marked to Market, they are valued at carrying cost and therefore the exposure was not subject to provisioning requirement.

Trading in AFS/HFT category is expected to commence in the second half for which the Bank has on boarded skilled personnel. The Bank also had no holding of dated Government Securities in its AFS portfolio and hence did not book any profit or loss from the yield movement during the quarter.

The Bank has in place an independent Mid-office which monitors the AFS portfolio on a daily basis. Macro-economic indicators including interest rate movement and peer analysis play a vital role in the effective functioning of the Bank. Mid-Office keeps Asset and Liability Committee (ALCO) and senior management informed on the recent developments in the economy and its possible implication on the interest rate movement.

12.1.1. Liquidity Risk:

The average tenor of a microfinance loan is 18 months. The Bank has grown its portfolio of Affordable Housing and MSE portfolio, which are of longer tenor. Personal loans are for short dated tenors and the average tenor for loans to Financial Institutions did not exceed 24 months. The ALM position for the Bank was well managed and regulatory thresholds complied with.

The share of legacy borrowings had reduced sharply to 1% as at 30th September 2019 as compared to 5.42% as at 30th September 2018. To effectively manage its ALM and also to diversify its funding sources, the Bank has also availed of refinance from SIDBI and NABARD which constituted 25% of the total funding mix. Other than it being cost effective, since there is no obligation to maintain Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) on these borrowings, these are also long tenor loans, thereby providing the necessary cushion for ALM.

The reliance on Certificate of Deposits (CDs) and Non-convertible debentures had also reduced as at 30th September 2019. Together, they constituted 4.23% of the funding mix as compared to 21% in the corresponding period in the previous year.

Deposits (Retail and Institutional) have registered a robust increase in its share of funding mix. The share of deposits more than doubled in September 2019(68%) as compared to September 2018 (32%). As part of its Contingency Funding Plan and also to diversify its funding sources, the Bank has been sanctioned a committed line of credit from a large private sector bank to the tune of Rs. 5,000 lakhs. The accent on retail deposits will continue in the ensuing years but the Bank will simultaneously seek to grow its long term liability as an effective way to manage its Asset/ Liability maturity profile.

A comparative picture of the funding mix is given below:

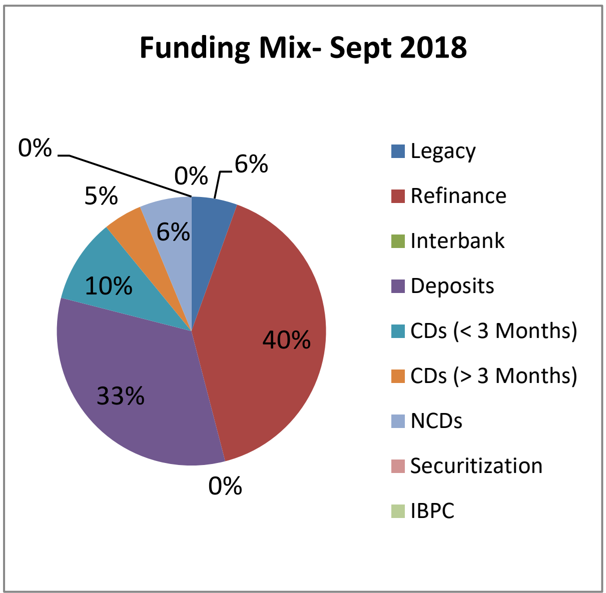
Rs. in Lakh

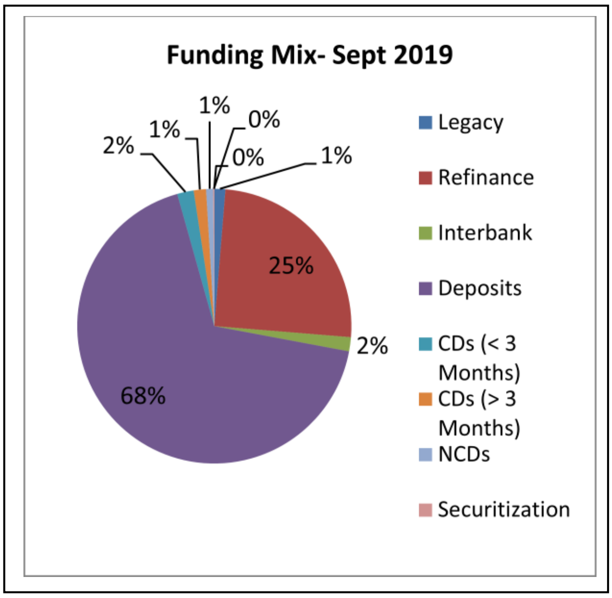
Sl.No	Particulars	September 2018	December 2018	March 2019[22]	June 2019	September 2019
1	Legacy	44,247	18,861	34,700	26,658	15,657
2	Refinance	3,24,400	3,12,440	3,72,000	3,53,950	3,01,360
3	Interbank	-	18,000	0	0	20,000

[22] Rounded to nearest hundred

4	Deposits	2,64,883	3,85,151	5,61,300	6,88,268	8,16,458
5	CDs (< 3 Months)	81,000	92,500	77,500	22,500	23,500
6	CDs (> 3 Months)	37,500	5,000	22,500	2,500	17,500
7	NCDs	50,000	10,000	10,000	10,000	10,000
8	Securitization	-	12,600	9,100	5,378	1,638
9	IBPC	15,000	15,000	33,500	33,500	0
Outstanding		**8,17,030**	**8,69,552**	**11,20,600**	**11,42,754**	**12,06,113**

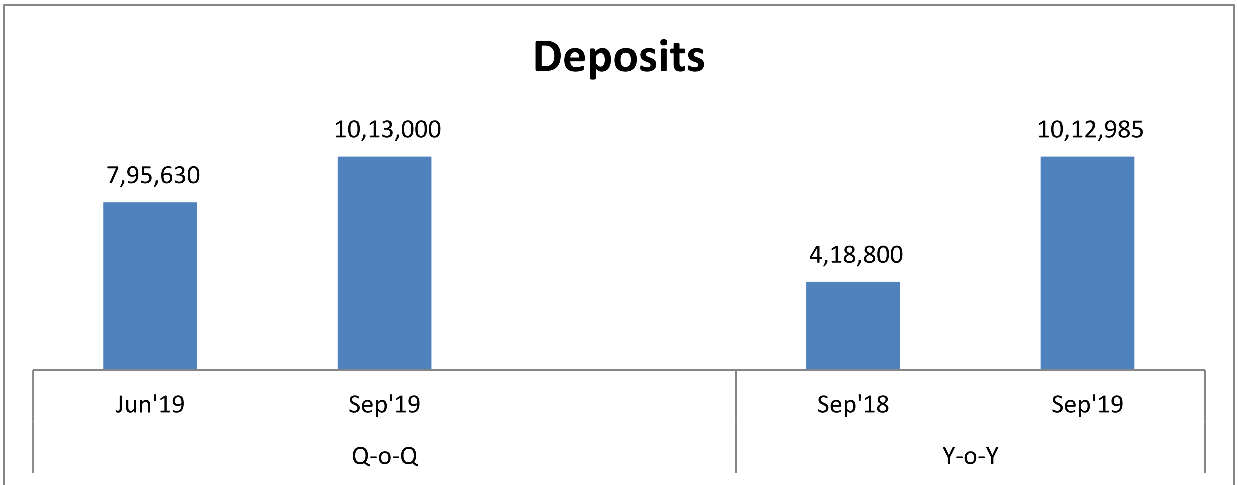
The distribution of funding mix is detailed as below:



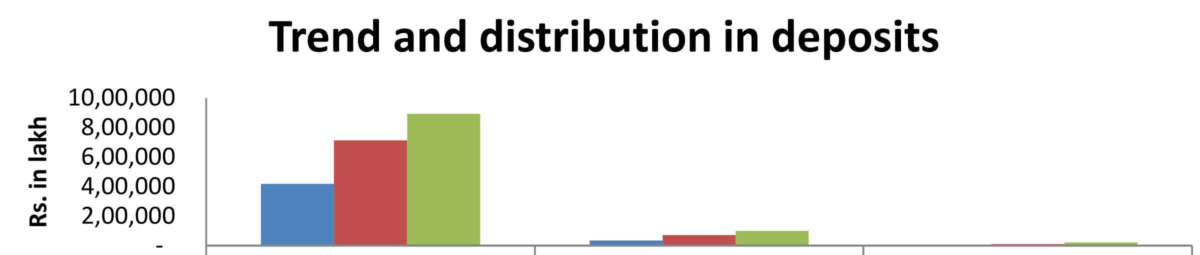


12.1.2. Deposit profile of the bank

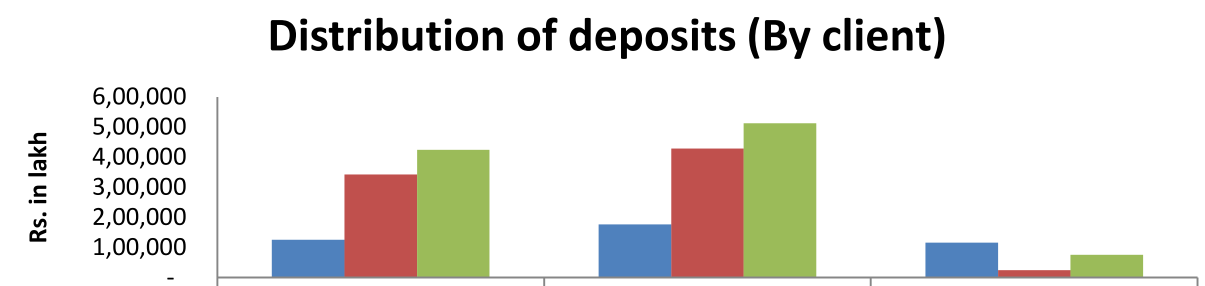
The Bank has registered a q-o-q growth of 27% while the y-o-y growth in deposits is a robust 147%. The comparative position of deposit profile is furnished as below :



The distribution of deposits on the basis of type is furnished as below:

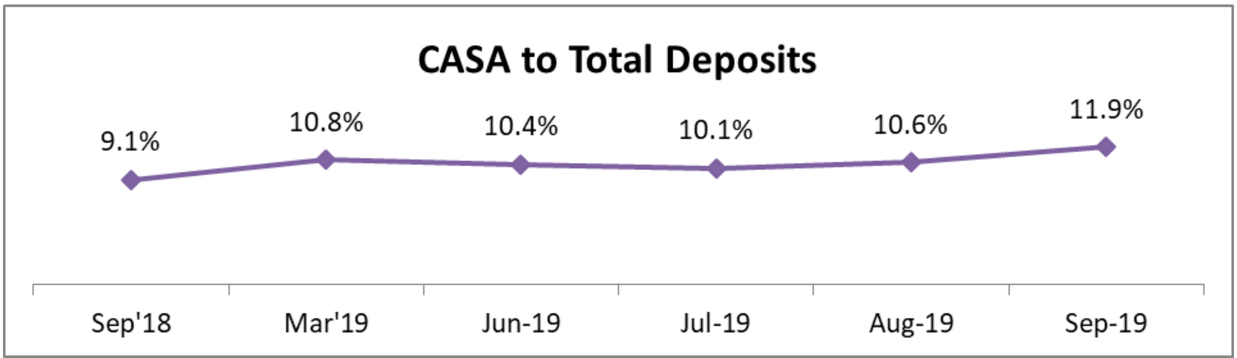


	TD	SA	CA
Sep'18	4,18,800	34,759	2,921
June'19	7,12,980	70,900	11,750
Sep'19	8,92,765	99,550	20,670



	Retail	Institutional	CD
Sep'18	1,25,900	1,76,700	1,16,200
Jun'19	3,42,869	4,28,061	24,700
Actual Sep'19	4,24,760	5,12,000	76,225

The Bank has increased its share of Retail and Institutional deposits over the corresponding period in the previous year. The Bank has dedicated teams within the liabilities side focused on mobilization of deposits from each client type.



One of the strategic imperatives of the Bank is to grow the share of CASA in its total deposits base. As shown above, the Bank has increased the CASA share consistently over the quarters.

The Bank adheres to RBI guidelines relating to the Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and the LCR Disclosure Standards pursuant to the Basel III Framework on Liquidity Standards that are applicable to Small Finance Banks in India. LCR aims to ensure that a bank maintains an adequate level of unencumbered High Quality Liquid Assets (HQLAs) to meet its liquidity needs, convertible into cash under significantly severe liquidity stress scenario lasting for 30 days horizon period.

The Bank computes LCR in Indian rupees, the only currency it deals with. HQLA of the Bank consists of cash, unencumbered excess SLR eligible investments, a portion of statutory SLR as allowed under the guidelines, cash balance with RBI in excess of statutory CRR, and high rated corporate bonds issued by entities other than financial institutions.

The LCR position as at 30th September 2019, computed on the basis of daily average of three months, was comfortable and significantly in excess of the mandatory minimum i.e. 80% as applicable for this financial year.

Liquidity Coverage Ratio (Rs. in lakh)		
A	**High Quality Liquid Assets**	**Adjusted Baseline Scenario**
	Level 1 Assets	1,66,429
	Level 2 A Assets	-
	Level 2 B Assets	-
B	**Total Stock of HQLAs**	**1,66,429**
C	Cash Outflows	1,09,353
D	Cash Inflows	71,979
E	Net Cash-flow	37,373
F	25% of Total Cash Outflow	27,338
G	**Higher of E or F**	**37,373**
	Liquidity Coverage Ratio	**445.32%**

The Bank maintained healthy cash position during the quarter and therefore increasing the HQLA as compared to cash outflow and therefore maintaining the LCR at 445.32%

12.2. <u>Quantitative Disclosures</u>

On the basis of SDA, the capital requirement for market risk reported to the Board from a governance perspective was as under:

Capital Requirement for Market Risk	**Amount (Rs. in Lakh)**
Interest Rate Risk	225
Equity Position Risk	--
Foreign Exchange Risk	--
Total	**225**
Total Market Risk RWA	**2,816**

13. Table DF- 9: Operational Risk

13.1. Qualitative Disclosures

13.1.1. Strategy and policy for Operational Risk Management

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It excludes Strategic and Reputational Risks but includes Legal Risk. Strategic or Reputational risks are second order effect of Operational Risk.

Legal risk includes, however is not limited to, exposure to penalties, fines, punitive damages arising out of supervisory action, civil litigation damages, related legal costs and any private settlements.

The Bank has in place a Board approved Operational Risk Management policy to mitigate and manage Operational Risk. The Operational Risk management process is a top-down approach and is driven by strong and sound operating procedures and internal control culture with well-defined reporting and contingency planning. This is a continuing process and the Bank is continuously striving to enhance its processes.

13.1.2. Governance Structure

For effective management of Operational Risk, the Bank has constituted an Operational Risk Management Committee (ORMC) consisting of senior management drawn from different functions such as Risk, Operations, Finance, and Information Technology (IT) The ORMC supports the Risk Management Committee (RMC) of the Board and is responsible for implementing the best practices in managing Operational Risk.

13.1.3. Risk identification, measurement, monitoring and reporting

Following are some of the key techniques applied to manage operational risks. It involves both a qualitative and quantitative approach.

- **Scorecard approach**: The Bank has adopted two processes. The first is a detailed risk assessment checklist focussing more on operating processes in every branch of the Bank. This is done and monthly intervals to ensure that all branches adhere to laid down processes. Second is a more detailed internal scoring mechanism to capture all risk parameters at a granular level within the Bank. The scorecard includes all facets of branch operations: micro banking, Housing and MSE loans, liabilities and other branch related parameters. Branches are categorized as High, Medium or Low risk based on these assessments on monthly basis. The scores are reviewed at ORMC and actionable to address key risk factors, be they at a branch or in a particular region are evaluated and addressed. Key policy decisions emerge from these scoring and reviews. The scorecard is continuously enhanced to include relevant parameters for optimizing the Operational Risk score. The Bank is in the process of automating the scorecard to make it a more effective tool.
- The Bank continuously enhances its **Quality Check (QC)** mechanism by enhancing the

comprehensive checklist. Loan documents are reviewed on a sample basis across MSE/SHL verticals and key observations are provided to Operations department to enhance/strengthen Quality Check (QC) mechanism. The documentation check is now an on-going activity and review reports are being placed at necessary forums at regular intervals.

  - **Risk and Control Self-Assessment (RCSA) framework**: The Bank has commenced working on RCSA and as at the quarter end, four processes, namely clearing, the Account Opening Process, Payments and Remittances and Loans/Overdrafts against Deposits had been completed and discussed with the key stakeholders. There is a time bound plan to close the open issues.

- The Bank has defined **18 Key Risk Indicators (KRIs)** as part of the Operational Risk Management Framework. The KRIs is monitored on bi monthly basis and a comprehensive report is submitted to the Board at regular intervals. The thresholds for the KRIs have been decided upon in consultation with the stakeholders. With the results of RCSA exercise, the thresholds for these KRIs are being progressively revised. The report on the KRIs is shared with stakeholders for necessary action regularly.
- Thorough **due diligence** is undertaken prior to **opening any new bank branch** incorporating inputs from business and all control functions. This includes analysis of PIN CODE data to analyse portfolio quality within the area, including competitor analysis. In addition, inputs from field staff on key risk issues complements this data. Likewise the Bank has a robust process for risk assessment of vendors that it seeks to on board and which are classified as material to its operation, both from an Information Security and Operational Risk perspective;
- **Incident reporting process** is in place to record material incidents and learn from errors and strengthening existing controls. Incidents recorded as loss and near miss data. This is followed by a Root Cause Analysis (RCA) for each reported incident. EGRC module on SAS is implemented to record all loss events across the Bank. Significantly, the efforts of the Operational Risk team have resulted in greater reporting of operational risk incidents from the branches. The Bank has created a separate General Ledger Code (GLC) to record losses on account of these incidents and these are reported to the Board at quarterly intervals.

  The incident reporting process enables creation of loss database as per Basel definitions. The activities broadly include the following:
  - Monitoring of General Ledgers (GL) to operational loss
  - Root Cause Analysis (RCA) of critical events
  - Quarterly loss data submission to Reserve Bank of India.
- All new products are rolled out post assessment of critical operational and compliance risks along with approval of the Product and Process Approval Committee (PPAC). The Bank is continuously reviewing and enhancing its key

processes to introduce controls as these have significantly evolved over the past two years. The emphasis is on digitisation of processes where feasible within the ambit of a risk and compliance framework

- **Outsourcing Risk:** Progressive risk assessment of all legacy material outsourced vendors to ensure that these vendors comply with the minimum requirements prescribed by RBI. Detailed notes have been recorded on the risk assessment done for each vendor. All observations made by RBI in this connection in its Annual Financial Inspection (AFI) are complied with.
- **User Access reviews** are conducted at regular intervals to ensure that access and role matrix are well defined and that access is commensurate with the responsibility assigned;
- **Fraud monitoring and reporting:** The Bank has had only minor instances of fraud and these relate to cash related activities on the field. The Bank records instances along the Basel defined lines of Operational Risk events and process enhancements arising from these occurrences are tabled at ORMC.
- The Bank is continuously engaged in addressing people risk. The employee count at the quarter end had reached 16,776. One of the objectives of offering Employees Stock Purchase Scheme (ESPS) and Employee Stock Option Schemes was to promote a sense of ownership among the employees. During the quarter, the Bank successfully completed 2 round of the ESPS programme and 5000+ employees for availed the same. Similarly, 97% of the employees have accepted the ESOP granted to them.

- Medical checks for employees were completed in 105 branches of the South region. 2,206 doctor consultations were completed out of 2868 employees. Overall, 95.8% of total employees of corporate office and south region have completed medical checks.

- The Bank provides rigorous **training** to its employees in its pursuit to develop bank related skill sets. The Bank has in place a detailed process and guidelines for training programs on a calendar based approach. Newly inducted employees are required to complete assigned induction programs as applicable for their role within 30 days of joining. During the quarter, the Bank has undertaken various employment engagement surveys, feedback from training participants, reaction surveys and other approaches to assess the training needs for its employees. The Bank updates its training content on various topics and areas in its SWAYAM[23] app on a continuous basis. W.e.f. 1st October 2019, completion of training programs is made a mandatory component of Key Responsibility Areas (KRAs) for all business, control and selected

[23] SWAYAM mobile application is a self-learning platform launched by the Bank in FY 2018-19. The mobile application provides self-certifications related to various products and processes followed in the Bank.

support functions. The Bank sponsors training programs for its employees working in critical areas/technically skilled jobs and to participate in programs conducted by renowned organizations such as College of Agriculture Banking (CAB), Indian Institute of Banking and Finance (IIBF), National Institute of Bank Management (NIBM) and others. During the quarter Jul-Sept 2019, the Bank has provided training to 6,308 employees.

- The Bank has an independent **Vigilance and Risk Containment Unit (RCU)** for the purpose of prevention, detection, investigation and reporting of frauds. The Bank has established preventive controls to minimize cash losses and frauds, by way of upgrading the security, introducing procedural changes in Bank branches operating structure, training of staff for fraud detection and regular checks across Branches. The Bank disseminates modus operandi reports on various frauds on regular basis to sensitize its staff on the same.

13.1.4. Information Technology and Security Risk

The Bank recognizes that we are living in a world where the threat landscape is constantly changing, cybercrimes and attacks are increasingly sophisticated and to counter these attacks banks have to combine traditional security practices with advanced and next gen security solutions. The Bank's continued efforts in maintaining the security posture and enhancing threat detection capabilities have been rewarded at various forums such as IBA Banking Technology Awards and DSCI Excellence Awards.

The Bank makes use of latest technological framework for supporting various operations. Use of technology brings in newer kind of risks like business disruption, risks related to information assets, data security etc. The Bank has put in a governance framework, information security practices to mitigate information technology related risks which ensures preservation of Confidentiality, Integrity and Availability (CIA) of all Information assets. The Bank is complying with the directives issued by RBI, from time to time in the area of Information/Cyber security standards and follows the best practices.

The Bank has Board approved information security and cyber security policies in place that have been developed as per ISO 27001:2013 standards and regulatory requirements. Employees are imparted awareness training through various means. Regular sensitization is carried out as well. The Bank has a 24/7 Cyber Security Operations Center which monitors the security posture of the Bank.

The Bank is actively participating in various meetings and forums organized by the Institute for Development and Research in Banking Technology (IDRBT), RBI and other forums to remain updated in latest security technologies and to continuously upgrade the security posture of the bank. The Bank also takes part in the quarterly cyber drills conducted by IDRBT.

13.1.5. Business Continuity

The Business Continuity Management Policy (BCMP) of the Bank provides guidance for handling emergency situations and to reasonably ensure continuous and reliable delivery of key products and services to customers in the event of a significant business disruption, while maintaining confidence levels of its shareholders and satisfy relevant compliance requirements. The plans and procedures are in line with the guidelines issued by the RBI in this regard and are subject to regular review. A Business Continuity Management Committee and Operational Risk Management Committee at apex level monitor the business continuity preparedness of the Bank on an on-going basis. Further, the Bank's critical systems undergo periodical disaster recovery drills/tests to ensure the capability of the same to handle disastrous situations. The Bank also has a Board approved Cyber Crisis Management Plan for tackling crisis level events.

Each branch of the Bank is mapped to an alternate branch which serves the purpose of a BCP branch in a contingency. The effectiveness of this is tested at periodic intervals. Likewise, the Bank has tested the continuation of its clearing and payments processes in a contingency. The effectiveness of the Bank's BCP measures was in evidence during the Odisha cyclone, when the Bank was successful in bringing up 9 of its 10 ATMs to provide the much needed cash to the affected people.

13.1.6. Procurement

The procurement activity in the Bank assumes significant importance as it involves procurement of assets for the purpose of building internal efficiencies and building better infrastructure for ensuring effective customer service. The Bank has in place a board approved procurement policy which defines the guidelines, procedures and responsibilities for various purchases/ expenses related to procurement and provides a framework to ensure that the purchased products/services conform to specified requirements. The Bank follows a committee approach for its procurement of assets and other infrastructure. The governance structure is designed as follows:

1) National Procurement Committee
2) National Procurement Committee for Outsourcing Contracts
3) IT Change Management Committee
4) Regional Purchase Committee

The proposals for acquisition of goods and services are placed and approved by one of the aforementioned committees as per internally defined delegation matrix. The Bank ensures that a minimum of 3 vendors/ service providers are evaluated before making any decision for procurement of goods and services. All contracts and agreements are vetted by Legal department before execution and all service agreements are accompanied by Non-Disclosure Agreements/ Clauses.

13.1.7. Outsourcing

The Bank has in place an outsourcing policy which provides guidance on outsourcing certain functions to specialized agencies for increasing efficiency and lower costs. **'Outsourcing'** is defined as the Bank's use of a third party (either an affiliated entity within the corporate group or an entity that is external to the corporate group) to perform activities on a continuing basis that would normally be undertaken by the Bank itself, now or in the future. The outsourcing policy is framed in compliance to various RBI guidelines on outsourcing issued from time to time. The Bank has in a place a robust process for selection of activities to outsource, monitoring of vendors and in assessing the materiality of the outsourced activity. The RMC-B is authorized to approve/ratify/reject all proposals of outsourcing arrangements. The vendors are subjected to annual review on a sample basis and are mandatorily reviewed during the time of renewal. Renewal of outsourcing contracts are tracked by the Operational Risk Vertical. Intimation of due for renewal is sent to respective verticals at least 90 days prior to the date of renewal.

13.1.8. Capital charge assessment

Although RBI is in the process of issuing detailed guidelines on Operational Risk Management for SFBs, the Bank has adopted Basic Indicator Approach (BIA) for measuring the capital requirements for Operational risk as applicable to Scheduled Commercial Banks. **T**he capital charge on operational risk is expected to stabilize on completion of 3 years (BIA directs Banks to allocate capital at 15% of the 3 years average gross income). The Bank has computed its Operational Risk Capital Charge at 15% of gross income for the past two completed years of operation.

13.2. Quantitative Disclosure

Particulars	Capital Reqd. (Rs. in Lakh)	RWA (Rs. in Lakh)
Operational Risk (BIA Approach)	16,002	2,00,028

14. Table DF- 10: Interest Rate Risk in Banking Book (IRRBB)

14.1. Qualitative Disclosures

Interest Rate Risk in Banking Book (IRRBB) refers to the risk of loss in earnings and economic value of a bank's banking book as a consequence of movement in interest rates. The Bank has identified the risks associated with the changing interest rates on its exposures in the banking book from both a short-term and long-term perspective.

The interest rate risk is measured and monitored through two approaches:

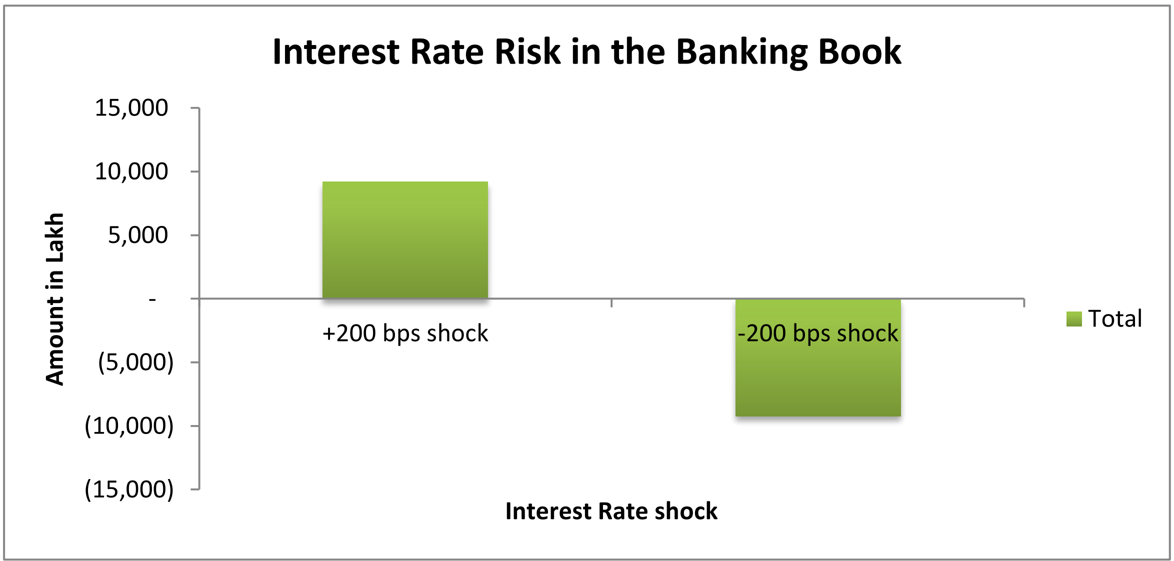
1) Earnings at risk (Traditional Gap Analysis): The impact of change in interest rates on net interest income is analysed under this approach and calculated under yield curve approach. Under this approach a parallel shift of 2% is assumed both in assets and liabilities.
2) Economic Value of Equity (Duration Gap Approach): Modified duration of assets and liabilities is computed separately to arrive at modified duration gap. A parallel shift in

yield curve by 200 basis points is assumed for calculating the impact on economic value of equity.

14.2. Quantitative Disclosures

14.2.1. Earnings at Risk (Earnings Perspective) (Rs. in Lakh)

Interest Rate Risk in the Banking Book (IRRBB)			
Sl.No	**Country**	**Interest Rate Shock**	
		+200 bps shock	**-200 bps shock**
1	India	9,210	(9,210)
2	Overseas	-	-
		9,210	(9,210)



14.2.2. Economic Value Perspective (Rs. in Lakh)

Category	Items	Amount
A	Equity (i.e., Net Worth)	1,62,072
B	Computation of Aggregate RSA	15,30,884
C	Computation of Aggregate RSL	14,00,937
D	Weighted Avg. MD of RSL across all currencies	1.14
E	Weighted Avg. MD of RSA across all currencies	1.06
F	MDG	1,29,947
G	Change in MVE as % of equity for 200bps change in interest rate	-6.71%
H	Change in MVE in absolute terms	(10,870)

18. Table DF-17: Summary Comparison of Accounting assets vs. Leverage ratio exposure measure

Rs. in lakh

Summary comparison of accounting assets versus leverage ratio exposure measure		
	Item	**Amount**
1	Total consolidated assets as per published financial statements	15,94,890
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	15,899
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	1,496
7	Other Adjustments	-15,816
8	**Leverage ratio exposure**	**15,96,469**

19. Table DF 18: Leverage ratio common disclosure template

Rs. in lakh

Sl. No	**Item**	**Amount**
	On-balance sheet exposures	
1	**On-balance sheet items (excluding derivatives and SFTs, but including collateral)**	15,94,890
	Domestic Sovereign	1,92,337
	Banks in India	16,207
	Corporates	52,139
	Exposure to default fund contribution of CCPs	9,492
	Other Exposure to CCPs	
	Others	13,24,715
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-15,816
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	**15,79,074**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-

5	Add-on amounts for PFE associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**-**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	15,899
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**15,899**
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	23,494
18	(Adjustments for conversion to credit equivalent amounts)	21,999
19	**Off-balance sheet items (sum of lines 17 and 18)**	**1,495.6**
	Capital and total exposures	
20	Tier 1 capital	1,82,072
21	Total exposures (sum of lines 3, 11, 16 and 19)	15,96,469
	Leverage ratio	
22	**Basel III leverage ratio**	**11.40%**

Presently the contribution of Tier I capital to Total Basel II capital is 96.38%. The business model of the Bank is relatively simple with a significant portion as fund-based assets. Gross advances were primarily in the nature of term loans. Since the exposure to Securities Financing Transactions (SFT) and Off Balance Items are presently low, the Leverage ratio is well above the benchmark of >4.5%.

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